



Florida Government Finance Officers Association

# **Accounting and Financial Reporting Certified Government Finance Officer (CGFO) Review Session**



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Networking, Leadership and Information.



# Exam Topics

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**Accounting / Internal Control / Capital Assets – 30%**

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**Financial Reporting (Internal and External) – 30%**

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**Auditing – 15%**

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**State of Florida Laws and Regulations – 15%**

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**ACFR Award – 10%**



# Accounting & Financial Reporting





# Learning Objectives

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**Recall** the accounting standard setting body in the United States

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**Define** the objectives of financial reporting

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**Identify** the types of financial reporting

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**Recognize** common terminology used in accounting and financial reporting

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# Learning Objectives

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**Identify** the components of fund balance

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**Recall** the definition of fund accounting

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**Recognize** the three broad categories of funds

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**Recall** the generic fund types for each category

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**Identify** the measurement focus

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**Define** the basis of accounting





# Learning Objectives

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**Differentiate** between the various reporting entities

**Recall** the accounting transactions for debt issuance

**Define** capital assets

**Identify** the common other financing sources and uses included on the financial statements

**Differentiate** between the various financial statement components

**Define** internal controls

**Recall** the components of the internal control framework





# Standard Setting in the United States

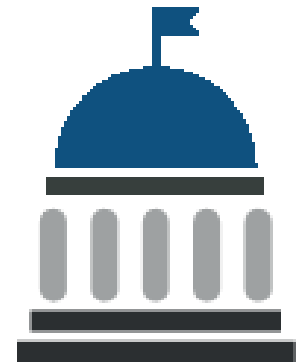
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# Standard Setting in the U.S.

## Financial Accounting Foundation – FAF

- **Final Authority** (1973) for accounting & reporting standards in both the public & private sectors
- Appoints FASB & GASB board members
  - Both establish accounting and financial reporting standards for respective constituents
- FAF responsible for oversight of standard setting process
  - **FASB** – Private Sector
  - **GASB** – Public Sector







# Standard Setting in the U.S.

## Governmental Accounting Standards Board (GASB)

- State and Local Governments
- Governmental Not for Profits

## Financial Accounting Standards Board (FASB)

- For-profit
- Non-governmental Not for Profits





# Standard Setting in the U.S.



## 1. Both use due process

- Documents circulated to constituents
  - Discussion Memorandum
  - Invitation to Comment
  - Preliminary Views
  - Exposure Drafts, etc.
- Comments solicited & all submitted to board for consideration in standard setting deliberations

## 2. Both have seven (7) members

## 3. Process really does work





# Standard Setting in the U.S.

## American Institute of Certified Public Accountants (AICPA)

- Establish audit & attest standards for non-issuers
- Officially recognizes FASB & GASB as authoritative standard setting bodies for Generally Accepted Accounting Principles (GAAP)

Role of the Federal Accounting Standards Advisory Board (FASAB) is intentionally omitted





# Standard Setting in the U.S.

## GAAP Hierarchy

- GASB Statements & Interpretations
- GASB Technical Bulletins
  - AICPA Industry Audit & Accounting Guides \*
  - AICPA Statements of Position \*
- AICPA Practice Bulletins \*
- Implementation Guides published by GASB staff

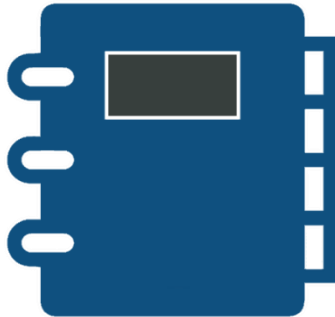
\*(If made applicable & cleared by GASB)





# Standard Setting in the U.S.

## GASB Concept Statements



Establish objectives & concepts

Provide framework

Establish consistent reporting standards

Relating to financial accounting & reporting

**DO NOT** establish accounting principles

Utilize same due process as other GASB standards





# Standard Setting in the U.S.

## GASB Concepts Statement (GASBCS) No.

Public  
accountability

Sufficient  
current  
revenues for  
services

Compliance with  
Budget &  
Legal/Contractual  
Requirements

Service Efforts &  
Accomplishments  
(SEA)

Other  
accomplishments

Presumes  
taxpayers  
are entitled  
to know

Intergenerational/  
interperiod equity

What  
government  
is doing &  
how

What  
government  
did & how  
well

What  
government  
plans to do  
& why





# GASB Statements

- GASB Statement No. 96, Subscription –Based Information Technology Arrangements (SBITA’s)

This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users.

1. Defines a SBITA.
2. Establishes that SBITA results in a right-to-use subscription asset-an intangible asset and a corresponding liability.
3. Provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and
4. Requires note disclosures regarding SBITA.

*Effective for fiscal years beginning after June 15, 2022.*





# GASB Statements

- GASB Statement No. 98, Annual Comprehensive Financial Report

This statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

*Effective for fiscal years ending December 15, 2021.*







# GASB Statements

- GASB Statement No. 101, Compensated Absences

This statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for:

1. Leave that has not been used and
2. Leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not (more than 50%) to be used for time off or otherwise paid in cash or settled through noncash means.

*Effective for fiscal years beginning after December 15, 2022.*





# GASB Statements

- GASB Statement No. 102, Certain Risk Disclosures

This statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. It defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources.

This statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. It also must assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

*Effective for fiscal years beginning after June 15, 2024.*





# Financial Reporting

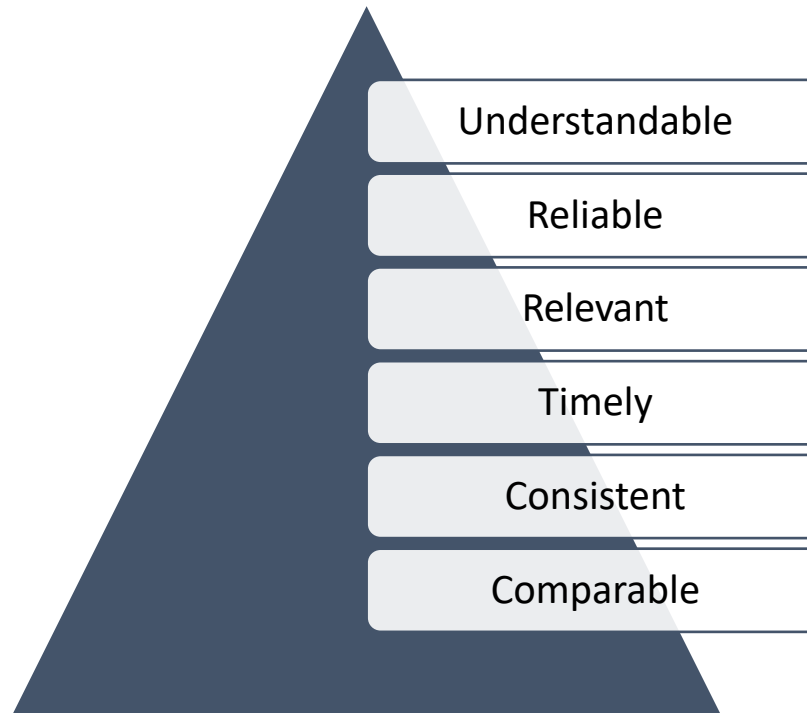
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# Objectives of Financial Reporting

Accounting data used for decision making

- Financial reporting should be:





# Types of Financial Reporting

## Three types of reporting

### External Financial Reports

- Primary Users:
  - Citizens
  - Legislative and oversight bodies
  - Investors and creditors

### Special Purpose External Financial Reports

- Primary Users:
  - Grantors
  - State Regulatory Agencies

### Internal Financial Reports

- Primary Users:
  - Management





# Common Terminology

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# Common Terminology

## Fund Accounting – Definition

- Fund accounting is an accounting system emphasizing **accountability** rather than **profitability**, used by **non-profit organizations** and governments.
- In this system, a fund is a self-balancing set of **accounts**, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations. \*



\*Leon E. Hay (1980). *Accounting for Governmental and Nonprofit Entities*, Sixth edition, page 5





# Common Terminology

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<b>Asset</b>	Resources with present service capacity that government presently controls
<b>Liability</b>	Present obligations to sacrifice resources that the government has little or no discretion to avoid
<b>Deferred Outflow</b>	Consumption of net position by the government that is applicable to a future reporting period
<b>Deferred Inflow</b>	Acquisition of net position by the government that is applicable to a future reporting period
<b>Net Position</b>	Residual of all other elements presented in the statement of financial position

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# Common Terminology

<b>Fund Balance</b>	Difference between assets & liabilities
<b>Revenue</b>	Fees charged for services
<b>Expenditures*</b>	Cost of providing services

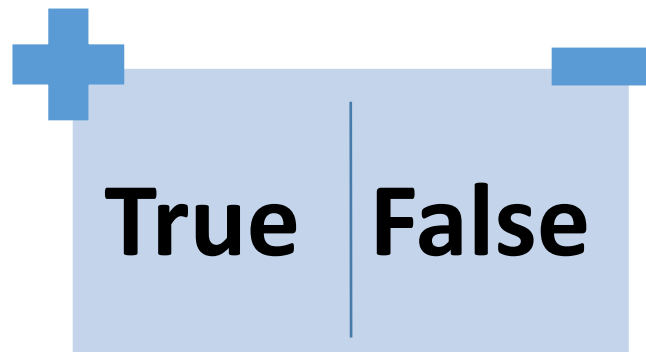
\*Applicable to governmental type, fund level statements





# Review Question

Primary Users of Internal  
Financial Reports are the  
Creditors





# Common Terminology

**Normal Account Balances:**  
**Debit** is the normal account balance for

## Asset

- Cash
- Accounts Receivable

## Expense/Expenditure

- Salaries and benefits
- Office supplies





# Common Terminology

## Normal Account Balances:

**Credit** is the normal account balance for

Liability	Revenue	Fund Equity
<ul style="list-style-type: none"><li>• Accounts Payable</li></ul>	<ul style="list-style-type: none"><li>• Water fees</li><li>• Property Taxes</li></ul>	<ul style="list-style-type: none"><li>• Fund Balance</li><li>• Net Position</li></ul>

**Debits must equal credits**





# Common Terminology

<b>Current Assets</b>	Used in operations or converted to cash within one year
<b>Capital Assets</b>	Benefit the organization for more than one year (service life) <ul style="list-style-type: none"><li>• Includes intangible assets</li></ul>
<b>Current Liabilities</b>	Obligations due within one year (includes current portion of Long Term Debt)
<b>Non-Current Liabilities</b>	Obligations due in more than one year





# Fund Accounting

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# Fund Accounting

## How Many Funds Do We Use?

- Use “**minimum number**” of funds necessary for sound financial management and legal requirements.
- Limit the number of funds
  - Required by law
  - In accordance with sound financial administration





# Fund Accounting

Fund accounting is comprised of three broad categories:



- Governmental funds
- Proprietary funds
- Fiduciary funds



Governmental Funds are comprised of five generic fund types:



- General Fund
- Special Revenue
- Capital Projects
- Debt Service
- Permanent





# General Fund

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## General Fund



To account for and report all financial resources not accounted for and reported in another fund

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Only fund required by GAAP

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Only one “General Fund”

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Small Local Government may have only a General Fund

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# Governmental Funds

<b>Special Revenue</b>	Account for and report the proceeds of <b>specific revenue</b> sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects
<b>Debt Service</b>	<ul style="list-style-type: none"><li>• Resources accumulated to pay long term debt</li><li>• Principal &amp; interest</li></ul>
<b>Capital Projects</b>	Acquisition/construction of major capital assets
<b>Permanent</b>	Resources restricted to extent that earnings and not principal may be used for support of entity programs





# Proprietary Funds

Proprietary Funds are comprised of two generic fund types

- **Internal Service**
  - Services provided by one agency to another on a cost reimbursement basis (internal customers)
- **Enterprise**
  - Operations financed & operated similar to private business
    - Charge users a fee for services (external customers)
    - Accountability (not “profit” makers)





# Fiduciary Funds

Fiduciary Funds are comprised of four generic fund types

## Pension Trust Fund

- Resources held in trust for others

## Investment Trust Fund

- Pooled resources of legally separate entities
- Entity holds investments on behalf of others

## Private-purpose Trust Fund

- Principal and income benefit specific individuals or organization

## Custodial\* Fund

- Pass-through funds
- Taxes or fees collected for another government
  - Property Tax, utility deposits, child support, intangible tax, etc.

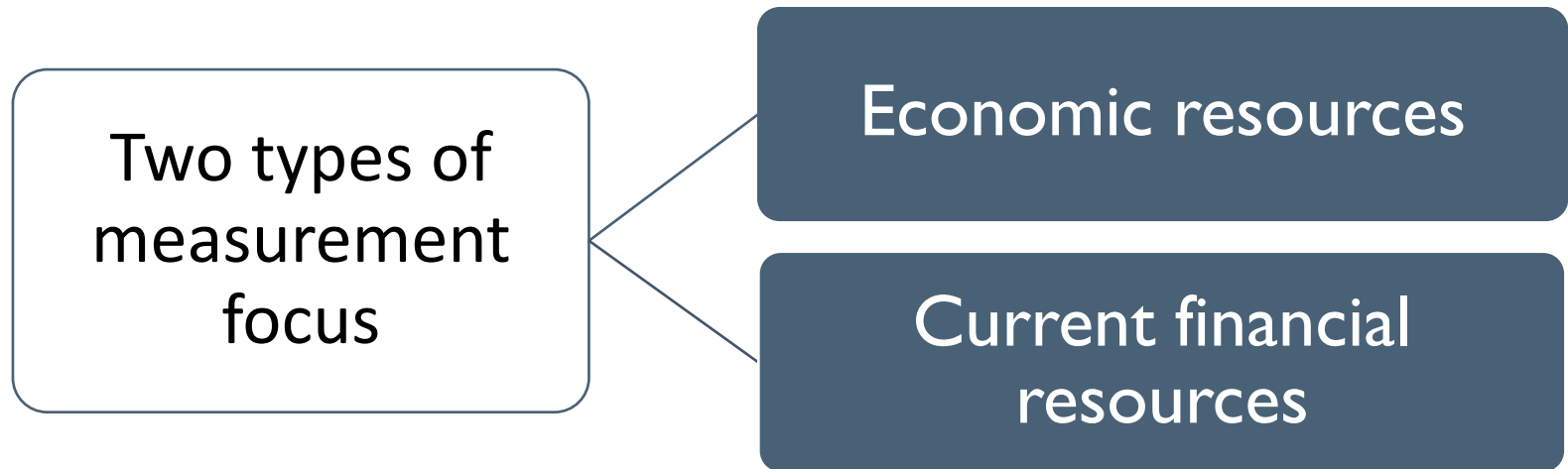
\* GASB 84 – Renamed Agency Fund to Custodial Fund





# Basis of Accounting

Measurement focus refers to **WHAT**  
transactions are measured





# Economic Resources Measurement Focus

## Economic resources measurement focus

- Measure inflows and outflows of economic resources
- Focus on **big picture**
- Current and noncurrent assets and liabilities are included
  - Capital assets
  - Long-term debt





# Economic Resources Measurement Focus

## Economic resources measurement focus

- Focuses on ***operational accountability***
  - Whether management effectively and efficiently uses resources in providing services
- Proprietary and fiduciary funds use the economic resources measurement focus

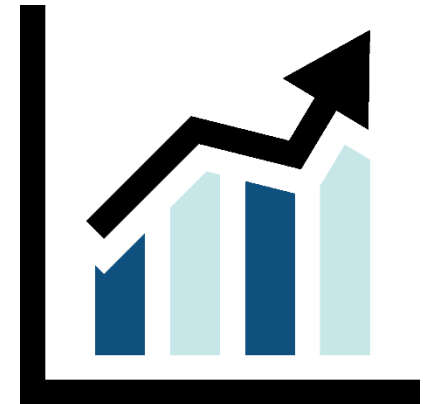




# Current Financial Resources Measurement Focus

## Current financial resources measurement focus

- Measures inflows and outflows of current financial resources
  - **Current Assets**
    - Cash
    - Accounts Receivable
  - **Current Liabilities**
    - Payables



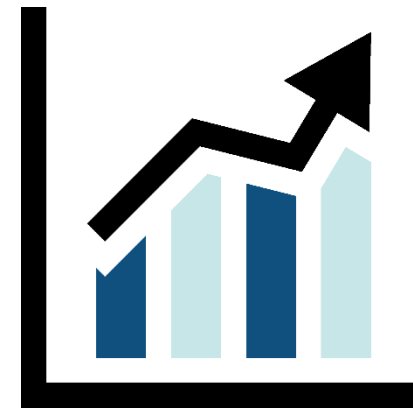




# Current Financial Resources Measurement Focus

## Current financial resources measurement focus

- Governmental funds use the current financial resources measurement focus
- Focuses on ***fiscal accountability***
  - Whether management has met budgetary and other legal financial requirements





# Basis of Accounting

The technical term that describes the criteria governing the timing of the recognition of transactions and events is **basis of accounting**.

Revenues are recognized when available and measurable

Expenditures are recognized when:

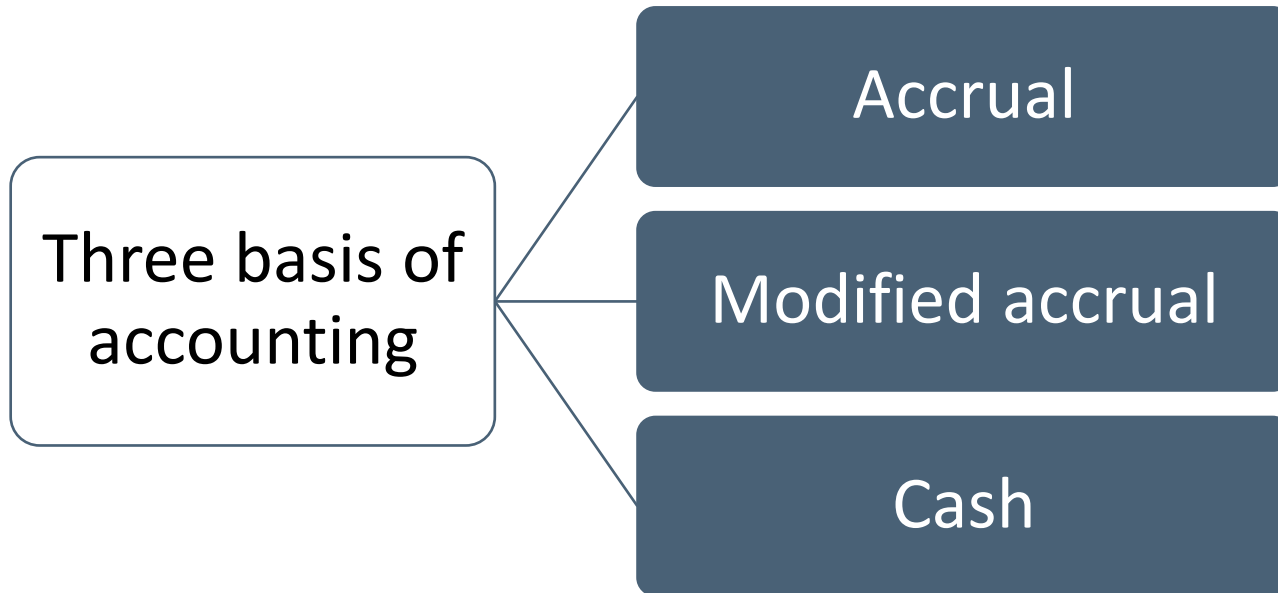
- A liability is incurred
- The amount is determinable
- The liability will be paid from current resources





# Basis of Accounting

Basis of accounting determines **WHEN** transactions are recorded





# Accrual Basis of Accounting

## Accrual Basis

- Recognizes the financial effects of transactions, events and interfund activities when they occur, **regardless of the timing of related cash flows**
  - Revenues – When **earned**
  - Expenses – When **incurred**

Proprietary and Fiduciary funds use the accrual basis of accounting





# Modified Basis of Accounting

## Modified Accrual Basis

- Revenues are recorded
  - When measurable and available
    - 60 day criteria
- Expenditures
  - Expected to be liquidated with current financial resources (recognized in the period governments liquidate the related liability rather than when the liability is first incurred).

Governmental funds use the modified accrual basis of accounting





# Cash Basis of Accounting

## Cash Basis of Accounting

- Recognizes transactions or events when cash is received or disbursed
- This basis is not in accordance with Generally Accepted Accounting Principles (GAAP)







# Review Question

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A local Government can have more than one General Fund

<b>True</b>	<b>False</b>
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# Summary

	<b>Measurement Focus</b>	<b>Basis of Accounting</b>
Government-wide statements	Economic Resources	Accrual
Governmental fund statements	Current Financial Resources	Modified Accrual
Proprietary fund statements	Economic Resources	Accrual
Fiduciary fund statements	Economic Resources	Accrual







# Accounting for Long-Term Debt & Capital Assets

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# Debt Issuance

## General Obligation Bonds (GO Debt)

- Requires voter approval
- No specific pledge other than the “**full faith & credit**” of the government.

## Revenue Bonds

- Pledge of specific revenue source **OR**
- Restricted asset use or asset set aside
  - Typically associated with enterprise fund borrowings but also used for governmental borrowings





# Debt Issuance – Fund Level Statements

## Accounting treatment on bond issuance

### Fund Level Statements – Current Financial Resources Measurement Focus

#### Governmental Funds

- Face value of Bonds – Other Financing Source
- Discount/Premium – Other Financing Use/Source
- Bond Insurance – Expenditure
- **Bond Issuance Costs – Expenditure**

#### Proprietary Funds

- Face value of Bonds – Liability
- Discount/Premium – Liability (Contra)/Liability
- Bond Insurance – Asset
- **Bond Issuance Costs – Expense**





# Debt Issuance – Government-Wide Statements

Government-Wide Statements - Accounting treatment for bond issuance is the same for BOTH Governmental and Proprietary Funds

## Accounting for Bond Issuance

- Face value of Bonds – Liability
- Discount/Premium – Liability (Contra)/Liability
- Bond Insurance – Asset
- Bond Issuance Costs –Expense





# Debt Expenditures

- GAAP generally requires recognition of expenditures when debt service payments are due
  - Can recognize before due if due early in next FY and the following are met:
    - Using a debt service fund
    - Advance provision of resources is **mandatory**
    - Payment is due in a short time period (one month maximum)





# Short-Term Obligations

## **Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs)**

Used to meet near-term cash flow requirements

Borrow in anticipation of pending collections

Fund liability even if maturity exceeds 12 months





# Debt Refunding

## Why is it done?

A lower market interest rate is available

To eliminate onerous bond covenants

To free up current pledged revenues

## Types of refunding

Advance Refunding

Current Refunding





# Debt Refunding

## Advance Refunding

- Old debt is not yet callable
- New debt is issued, the proceeds are placed in irrevocable trust/escrow to meet the debt service payments of the old debt
  - Old debt is technically outstanding until the call date or maturity
- New debt proceeds = “**other financing sources**”
- Trust/escrow payments = “**other financing uses**”







# Debt Refunding

## Current Refunding

- Old debt issue is callable – NOW - & retired with the proceeds of the new debt
- New debt proceeds = “**other financing sources**”
- Payment of old debt = “**debt service expenditure**”





# Debt Refunding

## Arbitrage

- Practice of investing low-yielding tax-exempt bond proceeds in higher-yielding taxable instruments
- Highly technical area
- Liability recognition may be required





# Capital Assets Defined

## Capital Assets

- Benefits more than a single fiscal period (one year)
- Used in Operations
  - Tangible
    - Land, Buildings, Works of art, Historical treasures, infrastructure
  - Intangible
    - Easements, software, water rights





# Capital Assets

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**Reported at:**

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Actual/estimated historical cost



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Fair value (FV) **ONLY** if donated

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Interfund transfers at lower of  
Net Book Value (NBV) or Fair  
Value (FV)

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# Capital Assets

## Depreciation

- The allocation of the cost of the asset over the estimated useful life
- Governmental funds
  - **Do not** depreciate at the fund level
  - Depreciate at the government-wide level
  - Reconcile from fund level to government-wide level
- Proprietary & fiduciary funds
  - Depreciate at the fund level
  - Depreciation at the government-wide level is arithmetic total of funds





# Capital Assets

## Depreciation

Three situations where assets are **NOT** Depreciated

1. Capital assets with an indefinite useful life (such as land, works of art, historical treasures, etc.)
2. Infrastructure accounted for using the **“Modified Approach”**
3. Construction in Progress





# Capital Assets

## Special issues

- Infrastructure
  - Immovable fixed assets
  - Of value only to the government (GAAP)
  - Able to be preserved for a significant number of years
  - Examples: Roads, Sidewalks, Bridges, etc.
  - Modified approach (if used – additional Note Disclosures)





# Capital Assets

## Special issues

### Intangibles

- Easements, “in-house” software, etc.

### Leased assets

- Accounting at fund level

### Capitalized interest\*

- Proprietary & fiduciary fund assets only

\*Effective with GASB 89 - Interest cost incurred before the end of a construction period is no longer capitalized and will be recognized as an expense.







# Landfill Closure / Post Closure Costs

## Government that operates is responsible for:

- Properly closing
- Monitoring & maintaining site to prevent environmental damage

## Closure & Post-closure care for landfills

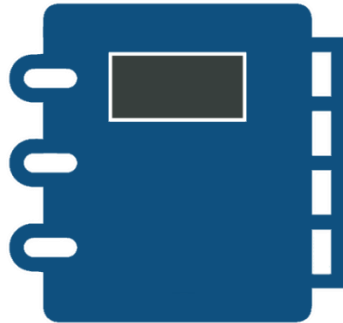
- Recognized cost over the life of the landfill
- Based on estimated cost at the end of each year
- **AND** percentage of landfill capacity used to date





# Other Financing Sources and Uses

## Sources (most common)



Issuance of long-term debt (face amount and premium)

Inception of a capital lease

Sale of Capital Assets (if significant)

Insurance recoveries

Transfers from other funds (**NOT** interfund loans)

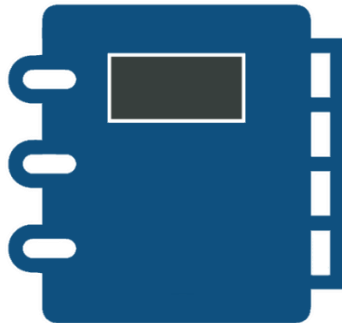




# Other Financing Sources and Uses

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## Uses (most common)



Original issue discount on debt

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Payments to advance refunding  
escrow agent

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Transfers to other funds (**NOT**  
interfund loans)

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# Reporting Entity

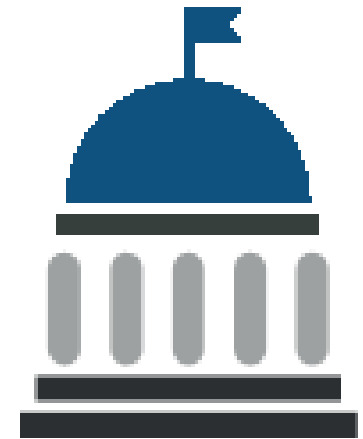
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# Reporting Entity

## Primary Government

- States/local governments
  - General or special purpose
- Including fiduciary funds





# Reporting Entity

## Component Units

- Financial accountability
- Primary government is **financially accountable** for another organization if
  - It **appoints a voting majority** of the organization's governing board **AND**
  - It can either
    - **Impose its will** on that organization **OR**
    - Potentially provide specific **financial benefits to or impose a financial burden on** the other organization





# Reporting Entity

If Primary Government DOES NOT appoint majority of governing board, it is financially accountable for another organization if other organization:

- Is **fiscally dependent** on Primary Government OR
- Holds economic resources entirely/almost entirely for the Primary Government AND
- Primary Government is entitled to/has ability to access majority of economic resources being held by other organization AND
- Resources being held are significant to Primary Government





# Reporting Entity

If neither of prior two apply:

Would it be misleading to exclude?



If so, include as a Component Unit.







# Reporting Entity

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**Joint Venture  
is/has:**



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Contractual agreement

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Joint control of assets

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On-going financial relationship

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Not a component unit

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# Financial Statement Overview

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# Financial Statements Overview

## Financial Statements

- Government-Wide Statements
- Fund Level Statements

## Note Disclosures

- Summary of Significant Accounting Policies (SSAP)

## Management's Discussion and Analysis (MD&A)





# Financial Statements Overview

## Items of Note:

- Investments
- Interfund Transfers vs Loans
- Security Lending Agreements
- Non-exchange Transactions

## Financial Reporting

- Pension Plans
- Other Post-Employment Benefits (OPEB)

## Internal Financial Reporting





# Financial Statements Overview

## GAAP Statements include:

- MD&A **AND**
- Basic Financial Statements
  - Government-wide statements
  - Fund level statements
  - Notes to the financial statements





# Financial Statements Overview

GAAP Statements **CAN** also include:

Required supplementary information (RSI)

- Budget to actual comparison
  - Option to report in basic financial statements
  - General Fund & Major Special Revenue Funds with legally adopted budgets
  - Reconcile budget basis to GAAP
- Modified approach for Capital Assets
  - Maintain up to date inventory
  - Condition assessment – every three years
  - Annual amount to maintain condition
  - Document preservation level – current level or better





# Financial Statements Overview

GAAP Statements **CAN** also include:

Required Supplementary Information (RSI)

- **Pensions**

- Schedule of employer contributions
- Schedule of funding progress

- **OPEB**

- Schedule of employer contributions
- Schedule of funding progress





# Financial Statements Overview

## Not required by GAAP

### Annual Comprehensive Financial Report (ACFR)

- Introductory Section
  - Letter of Transmittal
  - Organizational Chart
  - Awards
- Statistical Section
  - Financial Trend
  - Revenue Capacity
  - Debt Capacity
  - Demographic & Economic Information
  - Operating Information







# Financial Statements Overview

## Not required by GAAP

### Supplemental information

- Combining statements
  - Non-major funds
  - Component units
    - Major & non-major funds





# Financial Statements Overview

## Government-wide financial statements

- Economic resources & full accrual
- Net position, revenues, expenses
- Governmental & Business-type Activities
- Fiscal & operational accountability
- Interfund balances eliminated if appropriate
- Same governmental or business unit
- Fiduciary funds **EXCLUDED**





# Financial Statements Overview

## Fund level financial statements

- Governmental Funds
  - Fund balance, revenues, expenditures, other sources & uses of funds
- Proprietary Funds
  - Net position, operating and non-operating
- Fiduciary Funds
  - Fiscal accountability
- Required to reconcile to government-wide financial statements
  - Fund balance to net position
  - Change in fund balance to change in net position





# Financial Statements Overview

## Component Units are reported by:

### Discrete presentation

- Only presented in Government-Wide Statements
- Separate column – immediately to right of primary government
  - Separate column for major Component Units
  - Non-major Component Units aggregated

### Blended presentation

- Presented in both Government-Wide and Fund level statements
- Component Units financial information included with appropriate funds of the primary government





# Financial Statements Overview

## Government-wide Statements – Internal Service Funds

Incorporated into government-wide statement as part of the governmental activities

Business type activities if most customers from proprietary funds

Revenues  
=  
“Billings to Departments”

Surplus treated as a reduction of expenses in all participating funds

“Excess of Billings Over Costs”





# Financial Statements Overview

## Government-wide Statements – Segment Reporting

### Segment Disclosure

- Footnotes
- Required when revenue backed debt is outstanding
- Not required for segments that are major enterprise funds
- Key factor in condensed financial statements





# Financial Statements Overview

## Government-Wide Program Revenues

Taxes do not qualify

- Even if voted/restricted for specific purpose

Grants

- Operating
- Capital
- Reimbursement type grants qualify
  - When restricted to specific program

Charges for services





# Components of Fund Balance

As a result of GASB 54, fund balance is reported in the financial statements based on the following categories

## **Nonspendable Fund Balance**

- Cannot be spent because of:
  - Form (e.g. inventory, prepaid assets)
  - Must be maintained intact (e.g. principal of endowment fund)
- Examples include the following:
  - Inventories
  - Long-term receivables
  - Prepaid items
  - Permanent Fund Principal







# Components of Fund Balance

## Restricted Fund Balance

- Externally enforceable limitations on use
  - By creditors, grantors, contributors, laws
  - By law – constitutional or enabling legislation





# Components of Fund Balance

## Committed Fund Balance

- Constraint in place before end of period
- Constraint on use self-imposed – using highest level of decision making authority
- Must be removed by same “highest level” that imposed it
- Examples may include the following:
  - Stabilization funds
  - Capital project carryforward





# Components of Fund Balance

## Assigned Fund Balance

- Constraint results from intended use
  - Intent expressed by governing body or authorized official
  - “Intended use” delegated to lower level
  - May be removed by same level that received delegation
- Examples may include the following:
  - Stabilization funds
  - Capital project carryforward





# Components of Fund Balance

**Unassigned  
Fund  
Balance**

- Nonspendable/restricted /committed/assigned (i.e., surplus)
- Positive amount should





# Note Disclosure

## Three types of information:

Descriptions of Policies underlying the amounts in financial statements (SSAP)

Additional detail concerning amounts in financial statements

Additional information on items that do **NOT** meet the criteria for recognition and so are **NOT** included in the financial statements.





# Note Disclosure

No need to disclose that a situation is not applicable (i.e., negative disclosure)  
- with two exceptions:

- Situations where GAAP specifically requires disclosure of whether a given set of circumstances applies
- Situation in which absence of a given set of circumstances is so unusual that omission would be viewed as a material oversight



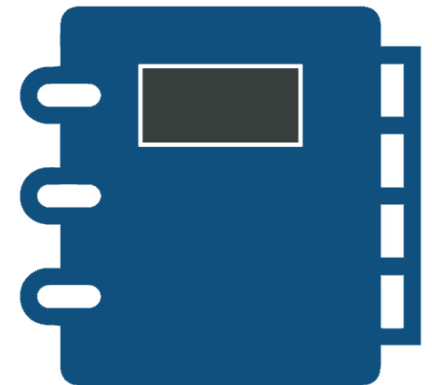


# Note Disclosure

## Summary of Significant Accounting Policies

Disclosure of accounting policies required by GAAP includes:

- Selection of accounting treatment when choices are available
- Accounting principles & methods peculiar to government
  - Measurement focus & basis of accounting
- Unusual/innovative GAAP applications





# Management's Discussion and Analysis MD&A

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Normally not in scope of Financial Statement audit

---

Narrative introduction overview & analysis

---

Should be objective and easy to read

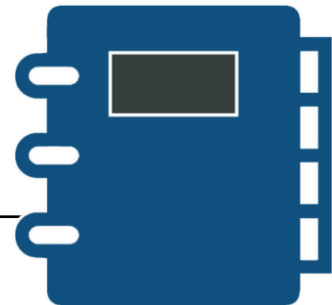
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Provides an analysis of financial activities

---

Focuses on relationship of governmental funds & governmental activities as reported in government-wide statements

---







# Management's Discussion and Analysis MD&A

---

- Does **NOT** replace the Letter of Transmittal
- Located right after the auditor's opinion letter
- Required under GAAP but **NOT** part of the Basic Financial Statements
- Supplements Basic Financial Statements

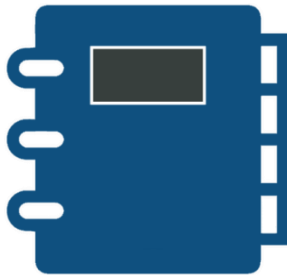




# Management's Discussion and Analysis MD&A

---

**Includes the following**



Discussion of Basic Financial Statements

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Condensed comparative data

---

Analysis of the government's overall financial position and results of operation

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Analysis of balances & transactions of individual funds

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Analysis of budgetary variations

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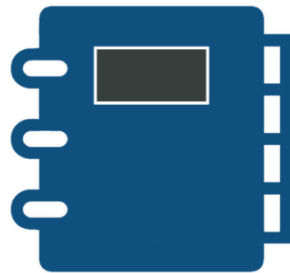




# Management's Discussion and Analysis MD&A

---

**Includes the following**



Description of capital asset and long-term debt activity

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Discussion of infrastructure (if the modified approach is used)

---

Discussion of currently known facts, decisions, or conditions of future significance

---





# Items of Note - Investments

## Report investments at fair value

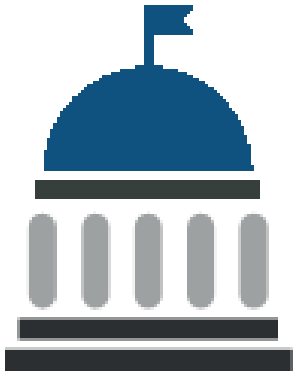
- Governmental funds
- Proprietary funds
- Fiduciary funds
- Types
  - Land & other real estate held by endowments
  - Debt Securities
  - Interest earning investment contracts
  - Positions in open-end mutual funds





# Items of Note - Investments

## Report investments at fair value



- GASB #53 – Accounting & Financial Reporting for Derivative Instruments
  - Extensive disclosure requirements:
    - Instrument type (swap, lock, option, cap, collar, etc.)
    - Disclose objectives, terms & risks
    - Disclose methods & assumptions used to determine “**fair value**”





# Items of Note - Securities Lending Agreements

Have broker fees associated

Could be backed by letter of credit

Governments receive collateral

Asset - securities lent

Liability – amount owed

- Never net the two against each other





# Items of Note – Non-Exchange Transactions

## Four Sub-classes

### Derived Tax Revenues

Sales tax, income tax, fuel tax

### Imposed non-exchange revenues

Property taxes (Ad valorem & personal), fines & forfeits

### Government mandated non-exchange transactions

Formula grants

### Voluntary non-exchange transactions

Reimbursement grants & donations





# Financial Reporting – Pension Plans

## Net Pension Obligation (NPO)

- **Positive** NPO occurs when employer fails to fully fund annual required contribution (ARC)
  - Report as long-term liability in government-wide statements
- **Negative** NPO occurs when ARC is overfunded
  - Report as asset in government-wide statements
- Debt issued to fund ARC reduces NPO







# Financial Reporting – Pension Plans

## State & Local Government Pension Plans

### Additions

- Contributions from employers, non-employer contributing entities and plan members
- Net investment income

### Deductions

- Benefit Payments
- Administrative Expenses (Management expenses & custodial fees)





# Financial Reporting – Pension Plans

Notes

- Descriptive Information
- Plan investments
- Contributions, reserves, and allocated insurance contracts

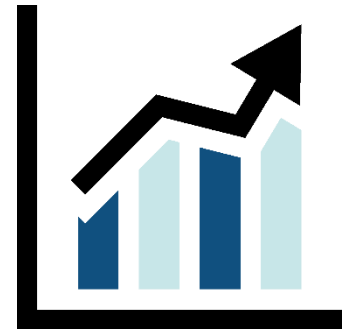




# Financial Reporting – Pension Plans

## RSI

- 10 most recent fiscal years
  - Net pension liability
  - Actuarially determined contribution, contributions, related ratios
  - Annual money-weighted rate of return on investments
  - Sources of changes in net pension liability
  - Components of net pension liability and related ratios
  - Net position as a percentage of total pension liability
  - Net pension liability as a percentage of covered-employee payroll





# Financial Reporting – Pension Plans

## Pension plan administered by others (FRS)

- **Net Pension Liability**
  - Present value of projected benefit payments (total pension liability) minus the amount of the pension plan's fiduciary net position **OR**
  - Present value – net position = Net Pension Liability
- **Actuarial valuation**
  - Required at least every two years





# Financial Reporting – Pension Plans

## Statement #68

### Projections of benefit payments

- Based on benefit terms & legal agreements at measurement date
- Effects of ad hoc postemployment benefit changes, if substantively automatic (COLAs)
- Discounted to actuarial present value using single rate that reflects:
  - Long-term expected rate of return on investments **AND**
  - Tax-exempt, high-quality municipal bond rate





# Financial Reporting – Pension Plans

## Statement #68

- Economic resources/accrual based
  - Liability equal to net pension liability
- Current resources/modified accrual based
  - Liability to the extent it is normally expected to be liquidated with expendable available financial resources





# Other Post Employment Benefits (OPEB)

- Exchange of salaries & benefits
- Part of compensation for services
- Common OPEB Obligations
  - Health Insurance (most common)
  - Life Insurance
  - Any post-employment benefit not defined as a pension





# Financial Reporting – OPEB

## Statement #75

- Economic resources/accrual based
  - Liability equal to net OPEB liability
- Current resources/modified accrual based
  - Liability to the extent it is normally expected to be liquidated with expendable available financial resources







# Other Post Employment Benefits (OPEB)

## Implicit Rate Subsidy

### Created when:

- Retirees pay same rate as active employees
- Called “**Blended Rate**”

### Subsidy is:

$$\begin{aligned} &\text{Rate Charged} - \text{Rate if retirees calculated as separate group} \\ &= \\ &\text{Implicit Rate Subsidy} \end{aligned}$$



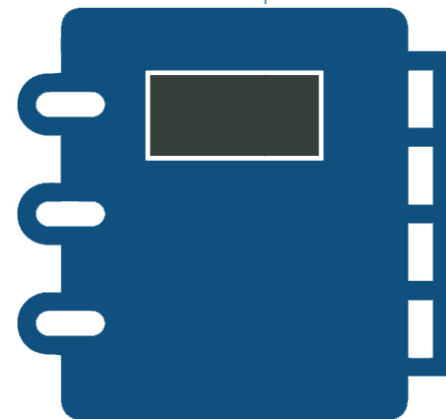


# Other Post Employment Benefits (OPEB)

## Disclose in notes:

- Description of benefits
  - Implicit subsidy
  - Explicit subsidy
- Description of significant accounting policies
- Funding policy
- Funding status
- OPEB expense & net OPEB liability\*
- Actuarial assumptions (major)

\*Difference between amounts expensed & contributions made/benefits paid



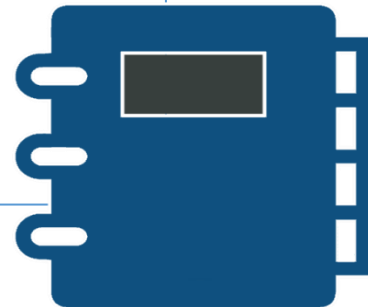


# Other Post Employment Benefits (OPEB)

## Disclose in notes:

In addition to note disclosures previously required for OPEB, Statement 75 requires disclosure of:

- OPEB expense calculation
- Reconciliation of changes in deferred outflows and inflows of resources
- Impact on the OPEB liability of a **one** percentage point **increase** and **decrease** in
  - Discount rate **and**
  - Healthcare cost trend rate



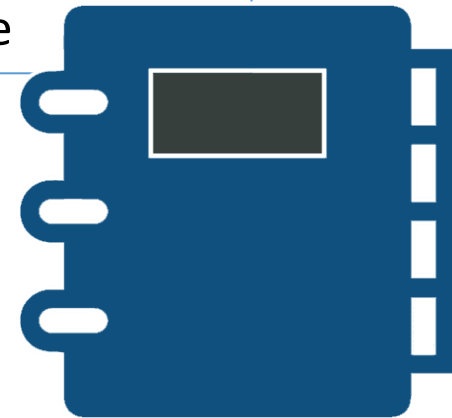


# Other Post Employment Benefits (OPEB)

## Disclose in notes:

Governments with single and agent plans are required to disclose:

- Effects of changes during the period on the total OPEB liability, such as effects of service cost, benefit changes and investment earnings
- The OPEB plan's fiduciary net position, if applicable

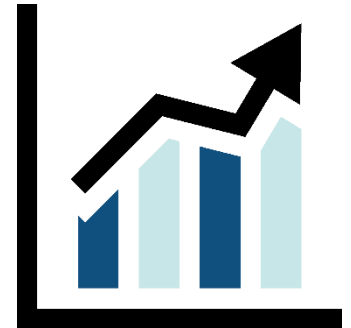




# Financial Reporting – OPEB

## RSI

- 10 most recent fiscal years (prospective basis)
  - Net OPEB liability
  - Actuarially determined contribution, contributions, related ratios.
  - Annual money-weighted rate of return on investments.
  - Sources of changes in net OPEB liability
  - Components of net OPEB liability and related ratios
  - Net position as a percentage of total OPEB liability
  - Net OPEB liability as a percentage of covered-employee payroll





# Internal Financial Reporting

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Occurs as often as management deems necessary

---

Typically on budgetary basis (not required)

---

Does **NOT** need to follow GAAP

---

Allows management to monitor compliance with legal & contractual provisions

---

Provides management information on current financial performance

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# Review Question

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## ACFR stands for:

- Annual Consolidated Financial Report
- Annual Comprehensive Financial Report
- Annual Comprehensive Federal Report
- None of the above





# Internal Controls

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# Internal Control - Defined

Internal Control is a process, effected by an entity's governing body, management and other personnel designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations

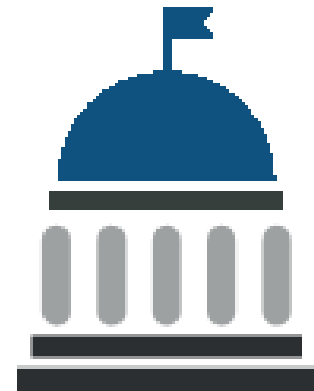




# Choosing Internal Control System

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- Many different models exist
- State/local government who receive federal awards (grants), choices are narrowed:
  - COSO – Committee of Sponsoring Organizations
  - Green Book – Standards of Internal Control for Federal Government



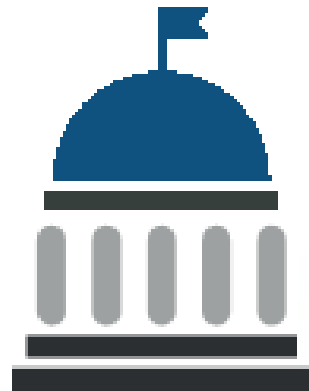


# Choosing Internal Control System

The Code of Federal Regulations (CFR)

*§200.303 Internal controls. The non-Federal entity **must**: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

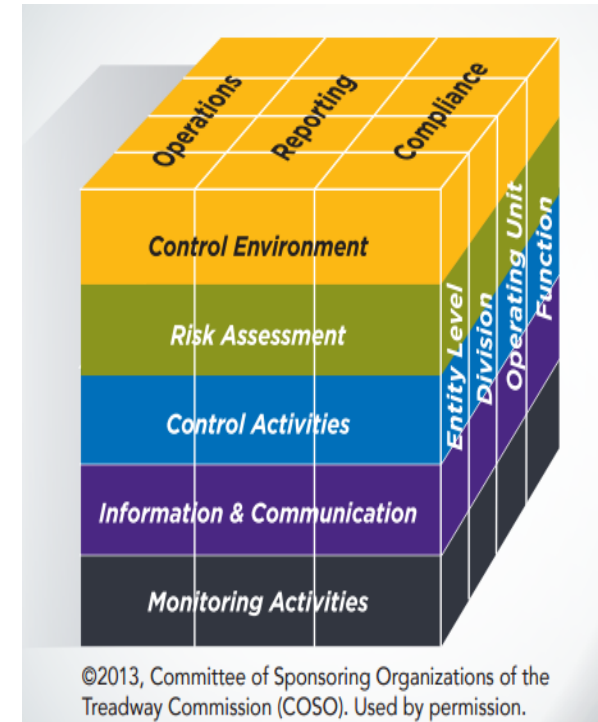
2 CFR 200.303





# Models of Internal Control System

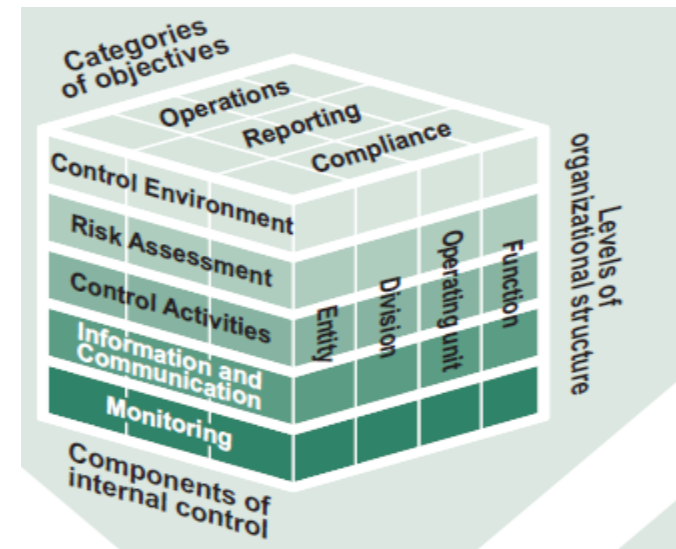
The most widely recognized internal control framework is the COSO framework. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.





# Models of Internal Control System

The *Standards for Internal Control in the Federal Government* also known as the “Green Book” is issued by the Comptroller General of the United States. Although written for the Federal government, it is commonly adapted for state and local governments.





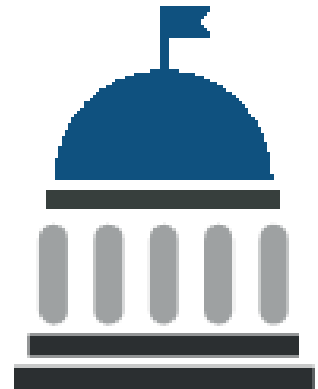
# Models of Internal Control System

## COSO

- 5 Components
  - Required
  - Must be present and functioning
- 17 Principles
  - Required
  - Supports components
- 77 Points of Focus
  - Not required
  - Important characteristics of principles

## Green Book

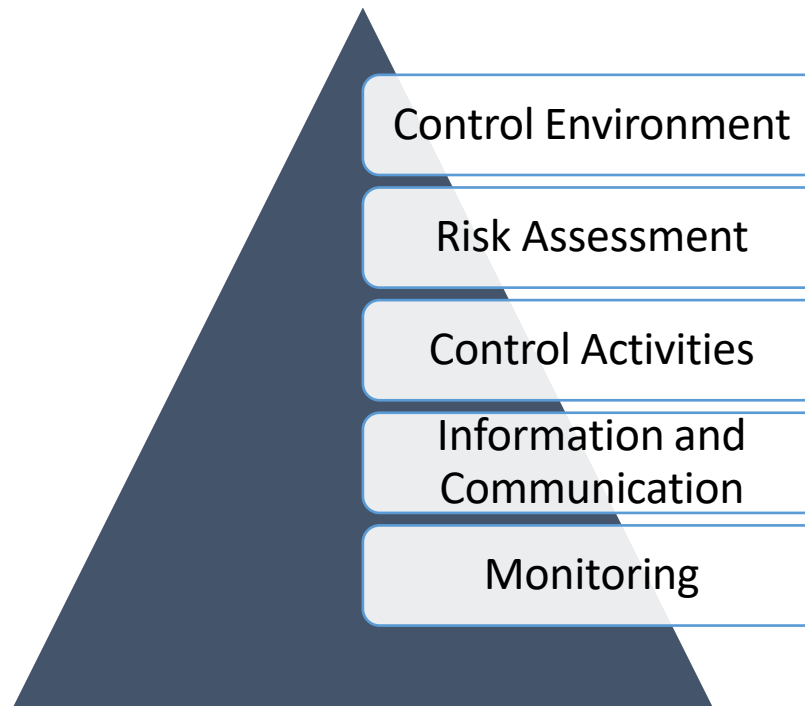
- 5 Components
  - Required
  - Must be present and functioning
- 17 Principles
  - Required
  - Supports components
- 44 Attributes
  - Not required
  - Explains principle; what the requirement is and what it is intended to cover





# Internal Control Framework

The framework consist of five interrelated components:





# Internal Control Framework

## Control Environment

Control Environment

Risk Assessment

Control Activities

Information and  
Communication

Monitoring

- The organizational attitude toward internal control
- Sets the tone of the entity
- Provides an atmosphere in which people conduct their activities and carry out their control responsibilities
- Forms the overall attitude, awareness, and actions of officials and management regarding the internal control system and its importance to the entity







# Internal Control Framework

## Risk Assessment

Control Environment

Risk Assessment

Control Activities

Information and  
Communication

Monitoring

Risk assessment is the process for identifying and assessing risks that could affect the achievement of objectives. A completed risk assessment forms the basis for determining how to manage and respond to risks.





# Internal Control Framework

## Control Activities

Control Environment

Risk Assessment

**Control Activities**

Information and  
Communication

Monitoring

Actions put into place by management to reduce risk, such as detective and preventative controls





# Internal Control Framework

## Information and Communication

Control Environment

Risk Assessment

Control Activities

Information and  
Communication

Monitoring

Information is data that is combined and summarized based on what is needed to support the internal control system.

Communication enables the organization to share relevant and quality information internally and externally.





# Internal Control Framework

## Monitoring

Control Environment

Risk Assessment

Control Activities

Information and  
Communication

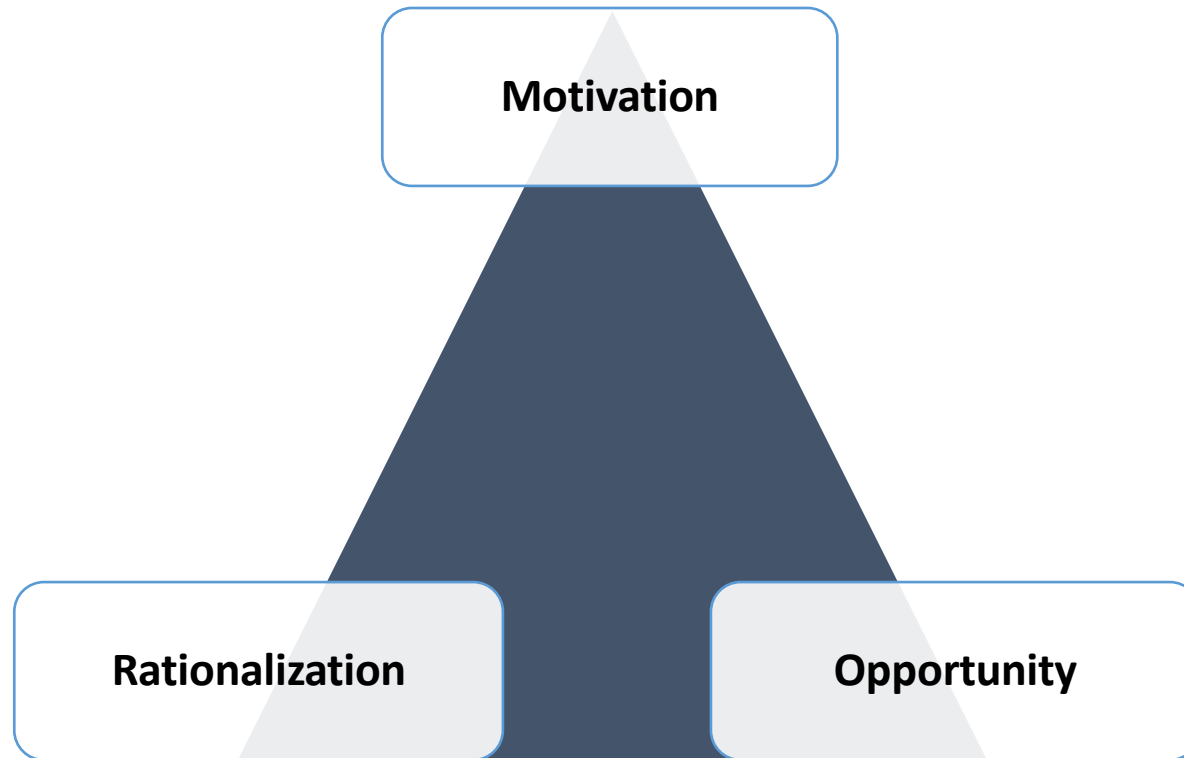
Monitoring

Monitoring activities assess whether the five components on internal control and relevant principles are present and functioning. Monitoring is key to measuring the effectiveness of your system of internal control.





# Fraud Triangle



According to Steve Albrecht with the National Whistleblower Center, the fraud triangle states that “individuals are motivated to commit fraud when three elements come together: (1) some kind of perceived pressure; (2) some perceived opportunity; and (3) some way to rationalize the fraud as not being inconsistent with one’s values.”





# GASB Statements

- **Statement #84** – *Fiduciary Activities* (Effective for reporting periods beginning after **December 15, 2018**)
- **Statement #85** – *Omnibus 2017* (Effective for periods beginning after **June 15, 2017**)
- **Statement #86** – *Certain Debt Extinguishment Issues* (Effective for reporting periods beginning after **June 15, 2017**)
- **Statement #87** – *Leases* (Effective for reporting periods beginning after **December 15, 2019**)
- **Statement #88** – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (Effective for reporting periods beginning after **June 15, 2018**)
- **Statement #89** – *Accounting for Interest Cost Incurred before the End of a Construction Period* (Effective for reporting periods beginning **after December 15, 2019**)
- **Statement #90** – *Majority Equity Interests – An amendment of GASB Statements No. 14 and No. 61* (Effective for reporting periods beginning after **December 15, 2018**)





# Auditing

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# Learning Objectives

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**Identify** the objectives of a financial audit

---

**Recall** Generally Accepted Auditing Standards (GAAS)

---

**Identify** the components of auditors standard report

---

**Recognize** the types of audit opinions

---

**Recall** the requirements under Statement on Auditing Standards(SAS) 114 & 115







# Learning Objectives

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## Define Audit Scope

---

**Identify** the types of governmental audits

---

**Recognize** U.S. Government Accountability Office (GAO)  
Generally Accepted Government Auditing Standards (GAGAS)





# Learning Objectives

---

**Define** the roles of the external auditor, management and the internal auditor

---

**Recall** independence standards and safeguards and distinguish between audit and non-audit services

---

**Identify** the requirements for a Single Audit





# Objectives of a Financial Audit

- Render an opinion by independent auditors expressing whether the Financial Statements **present fairly** the financial position, changes in financial position, and (where applicable) cash flows of the organization.
- Basically – an evaluation of the reliability of an entity's financial report.

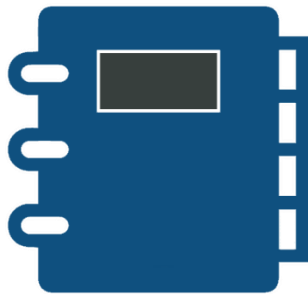




# Objectives of a Financial Audit

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## Concepts of Financial Audit



**Fairly Presented** – In conformity with appropriate Generally Accepted Accounting Principles (GAAP)

---

**Provide Reasonable Assurance** – **NOT** absolute assurance that they are free from error or fraud.

---

**Materiality** – Reasonable assurance that they are free of “material” misstatements

---





# Generally Accepted Auditing Standards (GAAS)

Auditors performing financial statement audits (non issuers) follow GAAS, reflected in Statements of Auditing Standards (SAS) issued by the Auditing Standards Board of the AICPA

**10 standards** (expanded by more than 100 SASs)

- General Standards (3)
- Field Work Standards(3)
- Reporting Standards (4)





# Generally Accepted Auditing Standards (GAAS)

## General Standards (3)

- Adequate technical training & proficiency as an auditor
- Independence in mental attitude
- Due professional care

### Government Auditing Standards – 2018 Revision

Expands the independence standard to state that “preparing financial statements from a client-provided trial balance or underlying accounting records generally creates significant threats to auditors' independence”. The revision also states that “auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level — or decline to perform the services”.





# Generally Accepted Auditing Standards (GAAS)

## Standards of Field Work (3)

- Adequate planning & proper supervision
- Understand the Entity – Study & evaluation of internal control
- Sufficient competent evidential matter (basis of opinion)

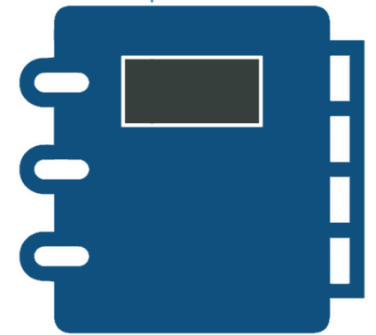




# Generally Accepted Auditing Standards (GAAS)

## Standards of Reporting (4)

- State if financial statements are presented in accordance with GAAP
- GAAP consistently observed in current & preceding period
- Informative disclosures reasonably adequate
- Expression of opinion or reason why not



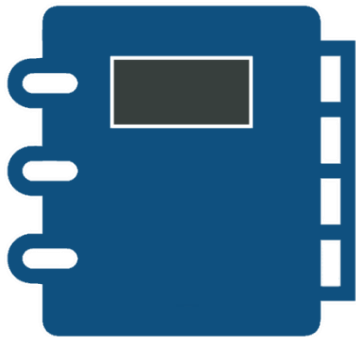




# Auditors Standard Report

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**Paragraphs in  
a standard  
audit report:**



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Report on the Financial Statements

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Management's Responsibility for the  
Financial Statements

---

Auditor's Responsibilities

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Opinions

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# Auditors Standard Report

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**Paragraphs in  
a standard  
audit report:**

Adoption of New Accounting Standards

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Other Matters

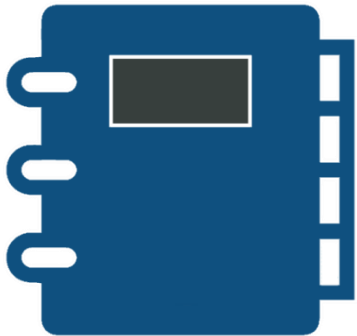
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Other Information

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Other Legal or Regulatory Requirements

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# Types of Audit Opinions

## Unmodified (clean)

- Financial statements present fairly, in all material respects, financial position & changes in position (and cash flows, if applicable) according to GAAP

## Qualified opinion

- Financial Statements contain material departure from GAAP or there is a material change between periods in GAAP





# Types of Audit Opinions



## Adverse opinion

- Financial statements do not present fairly in conformity with GAAP

## Disclaimer of opinion

- Auditor unable to obtain sufficient appropriate audit evidence on which to base the opinion
  - Often due to inability to examine records





# Statement on Auditing Standards (SAS)

## SAS 114 – Communicating with those charged with governance

- Auditor's responsibilities under GAAS
- Overview of planned scope & timing of audit
- Significant findings from the audit
  - Qualitative aspects of significant accounting policies
  - Significant difficulties
  - Material Misstatements (corrected and/or uncorrected)
  - Disagreements with management
  - Other significant issues discussed with management
- Auditor's choice (oral or written)





# Statement on Auditing Standards (SAS)

## SAS 115 – Communicating Internal Control Related Matters

- Definition of terms:
  - Control Deficiency
  - Significant deficiency (replaces reportable condition)
  - Material weakness
- Requires written communication of significant deficiencies and material weaknesses to management and those charged with governance





# Statement on Auditing Standards (SAS)

## SAS 115 – Communicating Internal Control Related Matters

- Definition of terms:
  - **Control deficiency**
    - A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.





# Statement on Auditing Standards (SAS)

## SAS 115 – Communicating Internal Control Related Matters



- Definition of terms:
  - **Significant deficiency**
    - A control deficiency, or combination of control deficiencies, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.







# Statement on Auditing Standards (SAS)

## SAS 115 – Communicating Internal Control Related Matters



- Definition of terms:
  - **Material weakness**
    - A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.





# Audit Scope

## Render an opinion:

- Basic Financial Statements
  - Includes notes

Typically – Render an opinion on fair presentation “in relation to” the basic financial statements:

- Combining statements
- Individual fund financial statements & schedules
- Other financial schedules





# Audit Scope

## Conduct limited procedures:

- Required Supplementary Information (RSI)
  - Management's Discussion & Analysis (MD&A)
  - Budgetary comparison schedules
  - Pension information
  - Modified approach information

## Read for consistency:

- Introductory section (if ACFR prepared)
- Statistical section

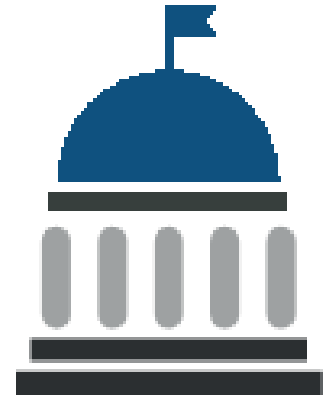




# Types of Governmental Audits

## Financial

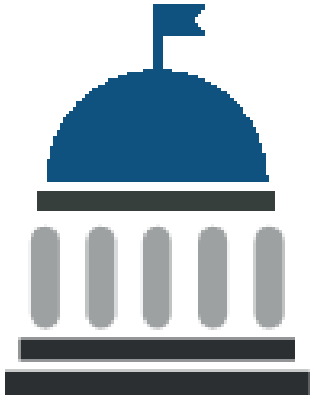
- Opinion as to whether Financial Statements are presented fairly, in all material respects, in conformity with GAAP





# Types of Governmental Audits

## Attestation engagement



- Examinations/procedures that lead to a report & assertion about subject matter that is the responsibility of another party
  - Internal controls
  - Compliance
  - MD&A
  - Contract amounts
  - Performance measures

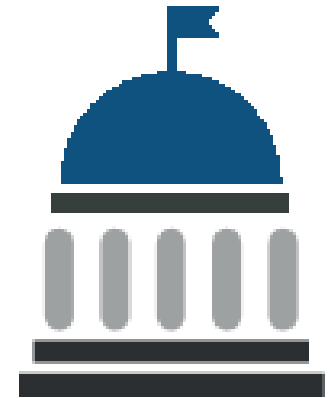




# Types of Governmental Audits

## Performance

- Determination of whether managers are using resources efficiently & effectively in accomplishing organizational goals





# External Auditor's Role

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- Adhere to standards of ethics and performance
  - Independent in both fact and appearance
- Assures users of Financial Statements they are free of material misstatements
  - “Reasonable but not absolute assurance”
- May provide advice, research materials and recommendations to **assist** management in performing its functions and making decisions





# Management's Role

## Full responsibility

- Fair presentation of the Financial Statements
  - **Management** Discussion and Analysis (MD&A)
  - Accompanying notes
  - Required Supplementary Information (RSI)
  - Supplementary Information (SI)
- Completeness and reliability of all information supporting Financial Statement amounts
- Internal control structure







# Management's Role

## Monitoring & assessing internal controls

### Audit process

- Select auditor
- Meet with auditor at entrance and exit conferences
- Respond to auditor questions in a timely manner
- Consider and implement as appropriate auditor recommendations





# Internal Auditor's Role

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- Integral part of internal control framework
  - Assess risk
  - Design, implement and monitor compensating controls
- Must be independent
- Accountable to top management

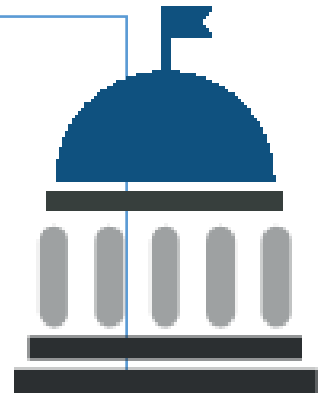




# U.S. Government Accountability Office (GAO)

## Establishes Generally Accepted Governmental Auditing Standards (GAGAS)

- Standards in **Yellow Book**
  - **Revised July 2018**
- Intended to supplement Generally Accepted Auditing Standards (GAAS) – from **AICPA**





# Unique Aspects of GAGAS

## Standard – professional proficiency

- Thorough knowledge of governmental auditing
  - Applies to all governmental auditors regardless of professional certifications
- At least 80 hours CPE every 2 years
  - At least 20 hours in each of the 2 years
  - At least 24 hours related directly to the audit environment





# Independence Standards

- Independence is the cornerstone of the auditing profession and the second general standard in both the **AICPA's GAAS** and **GAO's GAGAS**



## Government Auditing Standards – 2018 Revision

Expands the independence standard to state that “preparing financial statements from a client-provided trial balance or underlying accounting records generally creates significant threats to auditors' independence”. The revision also states that “auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level — or decline to perform the services”.





# Independence Standards

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- **Non-audit services**
  - That is solely performed for the benefit of the entity requesting the work & does not provide for a basis for conclusions, recommendations, or opinions as would a financial audit, attestation engagement, or performance audit





# GAO Independence Standards – Non-audit Services

- **Two overarching principles**
  - **Auditors should not perform management functions** or make management decisions
  - Auditors **should not audit their own work** or provide non-audit services in situations when the non-audit services are **significant to the audit subject matter**
  - Must be independent in both fact and appearance





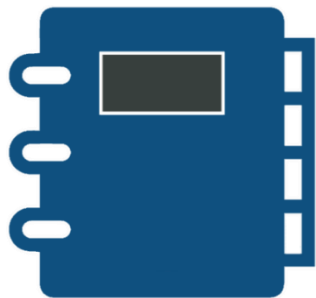
## Safeguards

1. Preclude non-audit personnel from planning audit

2. Do not reduce audit scope

3. Document

- Consideration of non-audit work
- Understanding with client of objectives and scope of audit work







# GAO Independence Standards – Non-audit Services

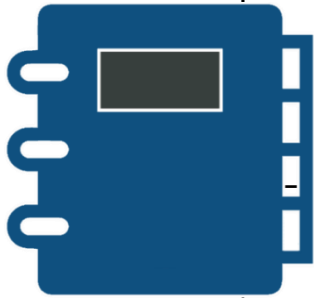
## Safeguards

4. Include policies to ensure compliance with independence standards

- Independent in both fact and appearance

5. Avoid certain non-audit work

6. Make all documentation available for peer review





# GAO Independence Standards – Non-audit Services

## Acceptable – no safeguards needed

- Providing routine advice/methodologies
- Serving on advisory committees
- Answering technical questions
- Evaluate a program's efficiency
- Providing training

## Prohibited

- Maintaining accounting records
- Posting transactions
- Recommending a single person for a position
- Supervising the information technology system
- Designing an internal control system





## Preparation of Financial Statements

- **Allowed** non-audit service
- Generally creates **significant threats** to auditors' **independence**
- Auditors should
  - **Document** the **threats** and **safeguards applied**



*“Preparing financial statements from a client-provided trial balance or underlying accounting records generally creates significant threats to auditors' independence and auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level — or decline to perform the services” - Government Auditing Standards – 2018 Revision*





## Permitted

- Maintaining depreciation schedules
  - Management determines key elements in calculations
- Proposing adjusting and correction entries
  - Management chooses to accept





# Single Audits

- Improve the efficiency and effectiveness of governmental audit effort
- **Single Audit Act of 1984**
  - Amended in 1996
  - Replaced multitude of grant-by-grant audits with single, comprehensive, entity-wide audit
    - Risk based approach
- Provide all federal awarding agencies a single report to satisfy program's audit requirements





# Requirements for a Single Audit

Organizations that **expend** more than \$750,000 in federal financial assistance in a year

State and local governments, not-for-profit organization, including hospitals



- If expended only for one program or one program cluster, may have a **program audit**, otherwise the audit must be a **single audit**





# Reporting Under the Single Audit

- ❑ Schedule of findings and questioned costs

## **Describes such matters as:**

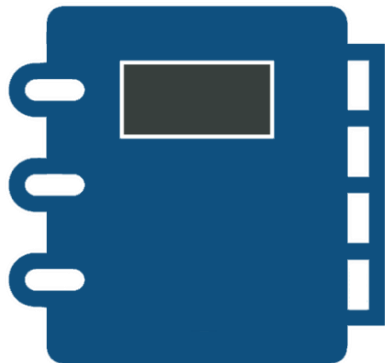
Internal Control weaknesses

Instances of noncompliance

Questioned costs

Fraud

Material misrepresentations by the auditee

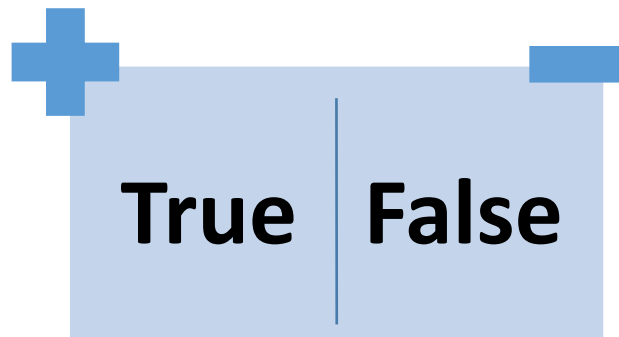




# Review Questions

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The Internal Auditor plays an integral part in the Internal Controls of an Organization.







# State of Florida Laws and Regulations

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# Learning Objectives

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**Identify** requirements of the Uniform Local Government Financial Management and Reporting Act and Local Governmental Entity Financial Emergencies

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**Recall** the auditor selection procedures

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**Define** the duties of the Auditor General and the Legislative Auditing Committee

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**Identify** the requirements of the Florida Single Audit Act

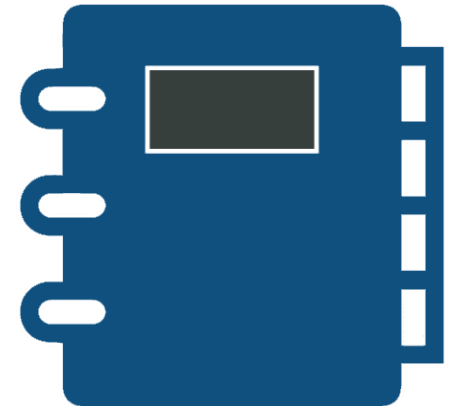




# Overview

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- ❑ **Chapter 218, F.S.** – Uniform Local Government Financial Management and Reporting Act
- ❑ **Section 11.45, F.S.** – Definitions; duties; authorities (Auditor General)
- ❑ **Section 11.40, F.S.** – Legislative Auditing Committee
- ❑ **Section 215.97, F.S., and Rules of the Auditor General (10.556-10.557)** – Florida Single Audit Act





## Section 218.32, F.S. – Annual Financial Reports

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- ❑ Counties, cities, and independent special districts are required to submit to the **Department of Financial Services (DFS)** a copy of its **Annual Financial Report (AFR)**
- ❑ AFR is due within 9 months after the end of the fiscal year for local governments not audited
- ❑ If the local government is audited pursuant to s. 218.39, F.S., a copy of the audit report, along with the AFR, is required to be submitted to DFS within 45 days after the audit is delivered to the entity's governing body, but no later than 9 months after fiscal year end





## Section 218.32, F.S. – Annual Financial Reports

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- ❑ If DFS does not receive a completed AFR within the required period, it shall notify the Legislative Auditing Committee and the Special District Accountability Program (SDAP) of the Department of Economic Opportunity
- ❑ DFS shall notify the President of the Senate and the Speaker of the House of Representatives of any municipality that has not reported any financial activity for the last four fiscal years
- ❑ DFS shall, by November 1<sup>st</sup> of each year, provide the SDAP with a list of each community redevelopment agency that does not report any revenues, expenditures, or debt for the previous year.





## Section 218.33, F.S. – Local governmental entities; establishment of uniform fiscal years and accounting practices and procedures

- Fiscal years begin October 1<sup>st</sup> and end September 30<sup>th</sup> for local governmental entities
- DFS shall promulgate by rule the uniform accounting practices and procedures used by local governmental entities
- Local governmental entities shall establish and maintain internal controls designed to:
  - Prevent and detect fraud, waste, and abuse
  - Promote and encourage compliance with laws, rules, contracts, grant agreements, and best practices
  - Support economic and efficient operations
  - Ensure reliability of financial records and reports
  - Safeguard assets





## Section 218.39, F.S. – Annual Financial Audit Reports

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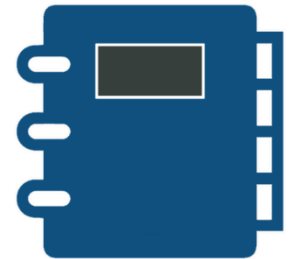
Requires certain local governments (all counties, certain municipalities & special districts) to provide for an annual financial audit report

---

The Audit Report is due to the Auditor General within 45 days after the audit is delivered to the entity's governing body, but no later than 9 months after fiscal year end

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Have 30 days to dispute audit finding





## Section 218.39, F.S. – Annual Financial Audit Reports

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- ❑ **UNLESS** the entity is notified by the first day of the fiscal year that the Auditor General will perform the audit

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### File with governing body



Written Statement of explanation/rebuttal of auditor's findings

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Must be filed within 30 days

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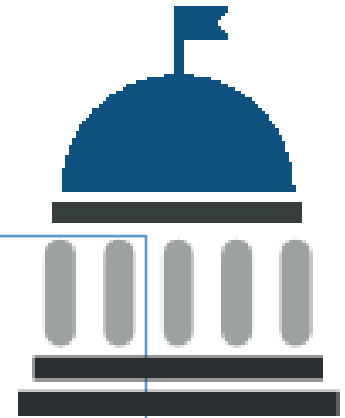






## Section 218.503, F.S. – Financial Emergency

Local governmental entities and district school boards shall be subject to review and oversight by Governor/Commissioner of Education when **any one** of the following conditions occurs:



- Failure within the same fiscal year in which due:
  - To pay short-term loans
  - To make bond debt service or other long-term debt payments when due, as a result of lack of funds
  - To pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds





## Section 218.503, F.S. – Financial Emergency

### Failure to transfer at the appropriate time, due to the lack of funds:

- Taxes withheld on the income of employees **OR**
- Employer and employee contributions for:
  - Federal social security **OR**
  - Any pension, retirement or benefit plan of an employee

### Failure for one pay period to pay, due to the lack of funds:

- Wages and salaries owed to employees **OR**
- Retirement benefits owed to former employees





## Section 218.503, F.S. – Financial Emergency

**Local Government shall notify the Governor and Legislative Auditing Committee**

**District School Board shall notify the Commissioner of Education and Legislative Auditing Committee**

- One or more of the specified conditions have occurred or will occur if action is not taken to assist the local governmental entity or district school board.
- In addition, any state agency must, within 30 days after the determination that one or more of the specified conditions have occurred or will occur (if action is not taken), notify Governor/Commissioner of Education and Legislative Auditing Committee





## Section 218.503, F.S. – Financial Emergency

**Governor/Commissioner of Education** shall determine if state assistance is needed

- If state assistance is needed – Local government is considered to be in a state of financial emergency

**Governor/Commissioner of Education** has authority to implement measures to assist the local government in resolving the financial emergency





## Section 218.503, F.S. – Financial Emergency

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### Measures

Require budget approval by  
Governor/Commissioner

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Authorize state loan and provide for  
repayment of the same

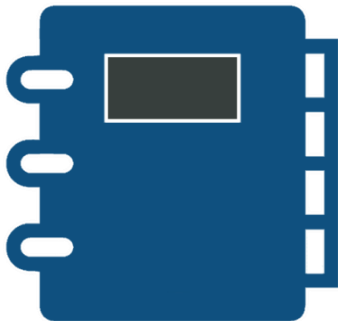
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Prohibit local government from issuing  
bonds, notes, etc.

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Inspect/review records, reports, and assets

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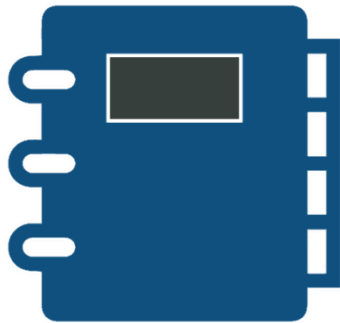
## Section 218.503, F.S. – Financial Emergency

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### Measures

Consult with officials and local government auditors regarding steps necessary to bring the books of account, accounting systems, financial procedures, and reports into compliance with state requirements

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Provide technical assistance

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Establish financial emergency oversight board to oversee local government's activities

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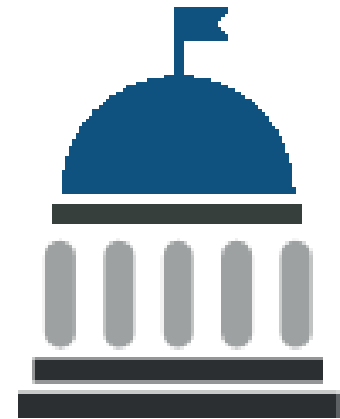




## Section 218.391, F.S. – Auditor Selection Procedures

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- ❑ Non-Chartered Counties and School Districts **shall** use the selection process outlined in **s. 218.391, F.S.**, which includes:
  - Membership of selection committee
  - Interviewing firms qualified by law
  - Committee meetings are open to the public
  - Factors to consider in auditor selection
- ❑ Cities and Chartered Counties can use their own procedures





## Section 218.391, F.S. – Auditor Selection Procedures

### Governing body shall establish an auditor selection committee

- Auditor selection committee (for Counties) shall consist of:
  - County officers AND
  - One member of the Board or its designee



Purpose of committee and procedures is to contract with an auditor to conduct the annual financial audit required by s. 218.39, F.S.







## Section 218.391, F.S. – Auditor Selection Procedures

Committee shall publicly announce, in a uniform and consistent manner, each occasion when auditing services are required to be purchased

- Public notice **must**
  - Include general description of the audit
  - Indicate how interested CPAs can apply for consideration





## Section 218.391, F.S. – Auditor Selection Procedures

- ❑ Committee shall encourage firms who desire to provide professional services to submit annually a statement of qualifications and performance data
- ❑ Any **CPA** desiring to provide auditing services shall first be qualified pursuant to law
  - Committee shall make a finding that firm or individual to be engaged is fully qualified to render the required services
    - Factors to be considered in making this finding:
      - Capabilities
      - Adequacy of personnel
      - Past record





## Section 218.391, F.S. – Auditor Selection Procedures

**Committee shall adopt procedures for the evaluation of professional services as may be determined by the committee to be applicable to its particular requirements:**



Capabilities

Adequacy of personnel

Past record

Experience

Results of recent external quality control reviews

Other factors





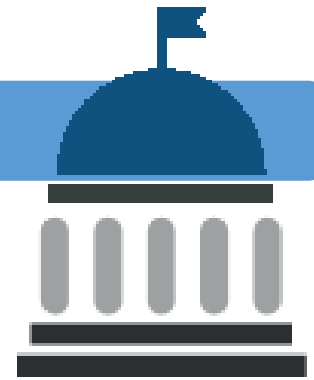
## Section 11.45, F.S. – Definitions, Duties, etc.

### Governmental entity

- State/county agency or any other entity, however styled, that independently exercises any type of state or local governmental function

### Local governmental entity

- County agency, municipality or special district as defined in s. 189.012, F.S.
- Does not include any housing authority established under ch. 421, F.S.



### Management letter

- Statement of the auditor's comments and recommendations



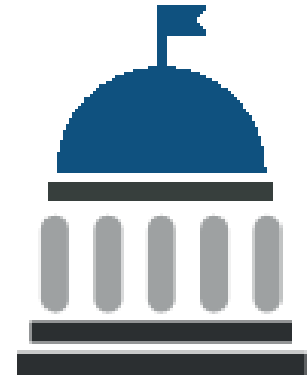


## Section 11.45, F.S. – Definitions, Duties, etc.

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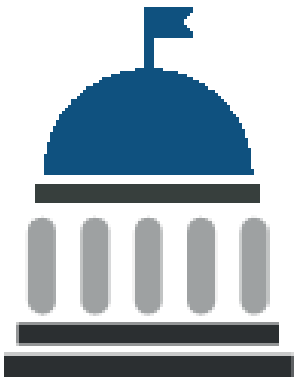
### Governmental entity

- State/county agency or any other entity, however styled, that independently exercises any type of state or local governmental function





### Local governmental entity



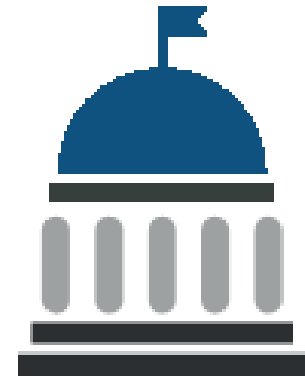
- County agency, municipality, or special district as defined in s. 189.012, F.S.
- Does not include any housing authority established under ch. 421, F.S.





## Management letter

- Statement of the auditor's comments and recommendations





## Section 11.45, F.S. – Definitions, Duties, etc.

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# Audit

- A financial, operational, or performance audit







## Section 11.45, F.S. – Definitions, Duties, etc.

# County agency

- Board of county commissioners, however styled
  - Consolidated or metropolitan government
- Clerk of the Circuit Court
  - Separate or ex officio Clerk of the County Court
- Sheriff
- Property appraiser
- Tax collector
- Supervisor of elections
- Any other officer





## Section 11.45, F.S. – Definitions, Duties, etc.

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### **Financial Audit**

Examination of Financial Statements in order to express an opinion on the fairness with which they are presented in conformity with GAAP and an examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements

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Financial audits must be conducted in accordance with GAAS and GAGAS as adopted by the Board of Accountancy





## Section 11.45, F.S. – Definitions, Duties, etc.

### Operational audit

- **Financial-related audit whose purpose is to:**
  - Evaluate management’s performance in administering assigned responsibilities in accordance with applicable laws, administrative rules, and other guidelines
  - Determine the extent to which Internal Controls, as designed and placed in operation, promotes and encourages achievement of management’s control objectives in the categories of:
    - **Compliance**
    - **Economic and efficient operations**
    - **Reliability of financial records and reports**
    - **Safeguarding of assets**





## Section 11.45, F.S. – Definitions, Duties, etc.

### Performance audit

- Examination of a program, activity, or function of a governmental entity
- Conducted in accordance with applicable government auditing standards or auditing and evaluation standards of other appropriate authoritative bodies





## Section 11.45, F.S. – Auditor General Duties

Conduct audits and perform related duties as prescribed by law or as directed by the **Legislative Auditing Committee**

### Annually conduct

- A financial audit of:
  - State government AND
  - All universities and district boards of trustees of community colleges
- Financial audits of all district school boards (counties with a population < 150,000)
- Audit of Wireless Emergency Telephone System Fund
- Audit of Florida School for the Deaf and the Blind





## Section 11.45, F.S. – Auditor General Duties

**At least every 3 years**

- **Conduct operational audits of state agencies and universities**
  - In connection with these audits, the Auditor General shall give appropriate consideration to reports issued by state agencies' inspectors general or universities' inspectors general and resolution of findings therein.





## Section 11.45, F.S. – Auditor General Duties

**At least every 3 years**



- **Conduct a performance audit of the local government financial reporting system**
  - Purpose
    - To determine accuracy, efficiency and effectiveness of reporting system in achieving its goals
    - To make recommendations to local governments, the Governor and Legislature
  - How reporting system can be improved
    - How program costs can be reduced





## Section 11.45, F.S. – Auditor General Duties.

### Once every 3 years

- Conduct performance audits of the Department of Revenue's administration of ad valorem tax laws
- Conduct financial audits of all district school boards in counties > 150,000 or more population
- Review a sample of each state agency's internal audit reports to determine compliance with current Standards for the Professional Practice of Internal Auditing or, if appropriate, government auditing standards



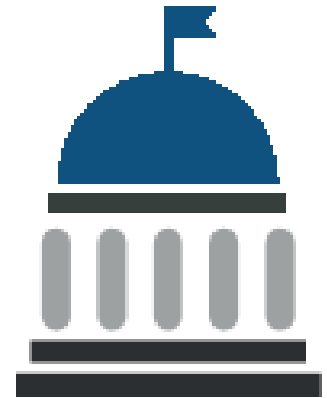




## Section 11.45, F.S. – Auditor General Duties

### Conduct audits of local governments when:

- Determined to be necessary by Auditor General
- Directed by Legislative Auditing Committee
- Otherwise required by law





## Section 11.45, F.S. – Auditor General Duties

**No later than 18 months after a report's release, the Auditor General shall perform such appropriate follow-up procedures to determine an audited entity's progress in addressing the findings and recommendations**

- The Auditor General shall provide copy of the determination to each member of audited entity's governing body and to the Legislative Auditing Committee





## Section 11.45, F.S. – Auditor General Duties

### Conduct other audits



Any governmental entity created or established by law

Technology programs, activities, functions, or systems of any governmental entity created or established by law

Accounts and records of any charter school created or established by law

Many others





## Section 11.45, F.S. – Auditor General Duties

### Scheduling and Staffing

- Made and completed within not more than 9 months following end of fiscal year or at such lesser time which may be provided by law, etc.
- When Auditor General determines conducting any audit or engagement otherwise required by law would not be possible due to workload or would not be an efficient or effective use of resources based on an assessment of risk
- **Auditor General may temporarily/indefinitely postpone for such period/any portion thereof, unless otherwise directed by Legislative Auditing Committee**

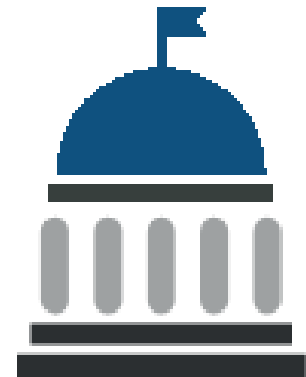




## Section 11.45, F.S. – Auditor General Duties

### Request by a Local Government for an audit by the Auditor General

- Expenses paid by the Local Government
  - The Auditor General shall estimate the cost
  - 50% of the estimate paid by the Local Government before the start of the audit
- At completion, the Auditor General shall notify the Local Government of the actual cost
  - The Local Government pays the remainder of the audit cost to the Auditor General

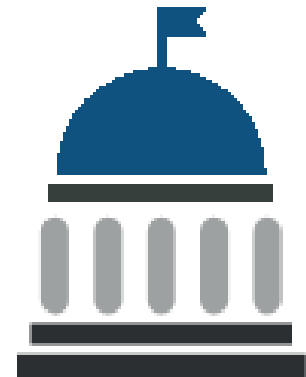




## Section 11.45, F.S. – Auditor General Duties

### Request by citizens of a municipality for an audit by the Auditor General

- When petitioned to conduct an audit of a municipality by at least 20 percent of the registered voters of the municipality...
  - The supervisor of elections certifies the petition
  - After the audit is completed, the Auditor General will determine whether the municipality has the resources to pay for it
  - If it is able, the municipality must pay the cost of the audit within 90 days of the determination

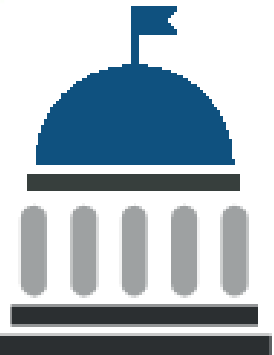




## Section 11.45, F.S. – Auditor General Duties

### Auditor General Notification

- If at the conclusion of the audit and notification of the cost, the Local Government **FAILS TO COMPLY** and remit remainder of the cost to the Auditor General
- Auditor General **shall** notify the Legislative Auditing Committee, Department of Financial Services, or the Division of Bond Finance of the State Board of Administration of the **failure to comply**, resulting in a possible hearing
  - **Hearing scheduled** – Legislative Auditing Committee **shall** determine if the Local Government should be subject to further state action
  - Withhold any non-pledged funds payable to the Local Government until it complies with the law

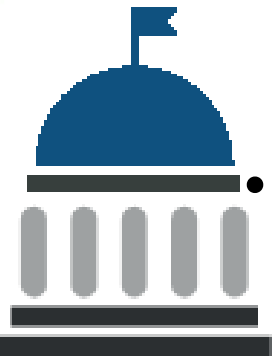




Section 11.47, F.S. – Penalties; failure to make a proper audit or examination; making a false report; failure to produce documents or information

## Penalties for failing or refusing to produce access to the Auditor General

- Any person who willfully fails or refuses to provide access to an employee, officer, or agent of an entity subject to audit by the Auditor General shall commit a misdemeanor of the first degree
- Any officer who willfully fails or refuses to furnish any book, record, paper, document, data, or sufficient information necessary for a proper audit by the Auditor General shall be subject to removal from office.







## Section 11.40, F.S., and Joint Rule 4 Legislative Auditing Committee

### Standing joint committee

- Currently 11 members
- (5 Senators, 6 Representatives)
- 5-7 members of each house
  - Appointed by the President of the Senate & Speaker of the House of Representatives
- Terms = 2 Years
- Run from organization of one Legislature to the organization of the next Legislature





# Section 215.97, F.S. – Florida Single Audit Act

## Purposes

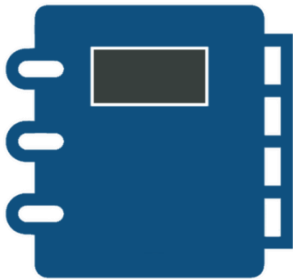
Establish uniform state audit requirements for state financial assistance (SFA) by state agencies to nonstate entities for state projects

Promote sound financial mgt, including effective internal controls, w/respect to SFA administered by nonstate entities

Promote audit economy and efficiency by relying to the extent possible on already required audits of federal financial assistance provided to nonstate entities

Provide for identification of SFA transactions in the state accounting records and recipient organization records

Promote improved coordination and cooperation within & between affected state agencies providing SFA and nonstate entities receiving SFA

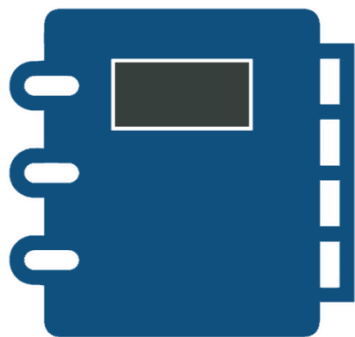




# Rules of the Auditor General

## Florida Single Audit Act –10.556

### Rules of the Auditor General



- Similar to Financial Statement audit definitions, etc.
- Scope shall also include additional activities necessary to establish compliance with “financial statement audit” as defined and used
- When applicable, scope shall encompass additional activities necessary to establish compliance with:
  - **Uniform Grant Guidance (UGG)**
  - **Florida Single Audit Act**





## Rules of the Auditor General Florida Single Audit Act –10.556

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- ❑ Scope of the audit shall include the use of financial condition assessment procedures to assist the auditor in detecting deteriorating financial conditions
- ❑ Auditor may use the financial condition assessment procedures developed by the Auditor General or appropriate alternative
- ❑ Financial condition assessment shall be done as of the **Fiscal Year End (annual basis)**
  - Give consideration to subsequent events that could significantly impact financial condition



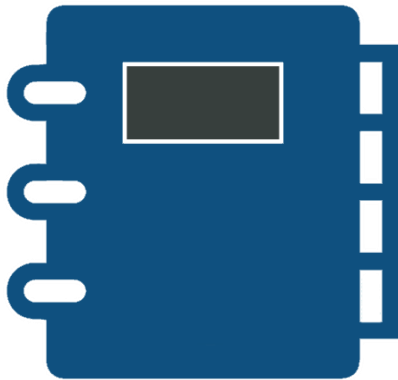


# Rules of the Auditor General

## Florida Single Audit Act –10.557(3)(e)

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### Report to include:



Schedule of expenditures of State financial assistance

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Opinion (fairly presented)

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Report on compliance and internal control

---

Schedule of findings & questioned costs

---

Summary of prior audit findings (if needed)

---

Corrective action plan

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# Annual Comprehensive Financial Report (ACFR)

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# Learning Objectives

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**Recall** the primary users of the Annual Comprehensive Financial Report

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**Identify** components of the report

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**Recognize** the requirements of the Government Finance Officers Association awards program





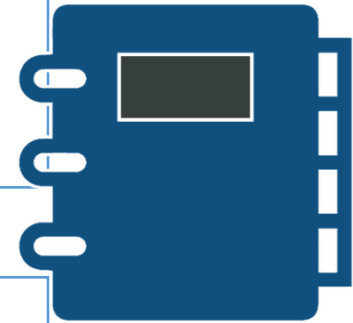
# Annual Comprehensive Financial Report

## GASB Recommends:

- Every governmental entity should prepare and publish, as a matter of public record, an **Annual Comprehensive Financial Report (ACFR)** that encompasses all funds and account groups of the primary government (including its blended component units).

## Recommended for GAAP – required for ACFR

- Combining and individual fund statements and schedules







# Annual Comprehensive Financial Report

ACFR is designed to serve the needs of primary users (e.g., citizens, investors/creditors, Legislative bodies) of external financial reports identified in GASB Concepts Statement No. 1, **“Objectives of Financial Reporting”**



**Required sections are:**

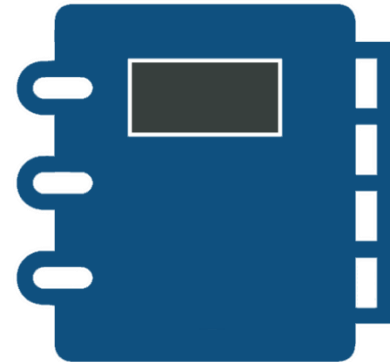
- Introductory Section
- Financial Section
- Statistical Section





# Annual Comprehensive Financial Report

- Introductory Section
  - Not GAAP
- Financial Section
- Statistical Section
  - GASB Statement No. 44
  - Not REQUIRED by GAAP
- Other Sections
  - If needed – Compliance Section

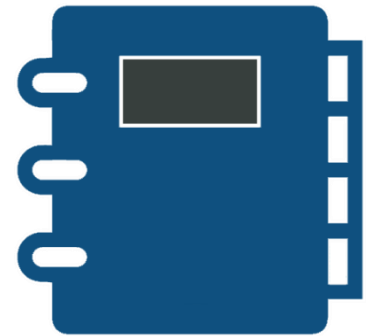




# Introductory Section

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- ❑ Proceeding the **Introductory Section** are:
  - Cover, Title Page, and Table of Contents
- ❑ **Introductory Section:**
  - Letter of Transmittal
  - List of principal officers
  - Organization Chart
  - Certificate of Achievement (prior year)





# Introductory Section

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## Letter of Transmittal (Four sections)



Profile of the government

---

Information useful in assessing economic condition

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Method to present information not suitable for inclusion in **MD&A**

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Awards and Acknowledgements

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\*Do NOT duplicate information from MD&A

\*Can refer to/expand discussion of MD&A





# Introductory Section

## Letter of Transmittal

- Formal transmittal of the ACFR
- Signed
  - Chief Financial Officer and Chief Executive Officer/Chief Operating Officer (ideal)
  - May be signed by CFO (lowest signature level allowed)
- Dated on or after the auditor's report date





# Introductory Section

## Additional Information



- List of elected/appointed officials
- Organization Chart of the government
- Certificate of Achievement for Excellence in Financial Reporting
  - Prior Year Certificate
  - Use narrative provided by GFOA
  - Indicate number of years award has been received





# Financial Section



Auditor report (opinion letter)

MD&A

Basic Financial Statements

- Government-wide
- Fund level
- Notes

Required Supplementary Information (RSI) other than MD&A, including the budgetary comparison schedule

**Above are required by GAAP**





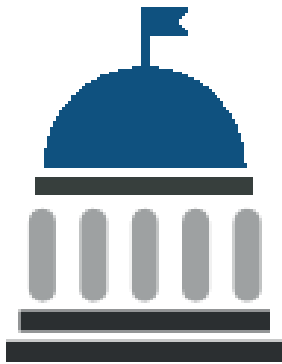
# Financial Section

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**Not  
required  
by GAAP**

Combining and individual fund  
financial statements

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Primary government and  
component units

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# Financial Section

## Government-wide Financial Statements

- **Report primary government's financial information for:**
  - Governmental activities
  - Business-type activities
- **Required statements**
  - Statement of Net Position
  - Statement of Activities
- Fiduciary activities excluded



**Biggest Mistake Made – Calculation of “Net Investment in Capital Assets”**





## Fund level financial statements

- Focus on major and non-major funds in aggregate
- Measurement focus and basis of accounting based on fund type
  - **Governmental** – financial resources and modified accrual
    - Fiscal accountability
  - **Proprietary** – economic resources and full accrual
    - Operational accountability
  - **Fiduciary** – economic resources and full accrual





# Statistical Section

Present information on economic condition of  
Primary Government

**GAAP must be followed:**

- Specific areas addressed
- Specific information required
- Specific time periods covered
  - Since GASB 34 implementation
  - 10 years history is target for most items





# Statistical Section

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## Required:

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### Financial trends information

Show financial condition over time

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### Revenue capacity information

Show revenue sources

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Ability to generate own revenue

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### Debt capacity information

Show debt burden

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Show ability to issue additional debt

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# Statistical Section

## Required:

### Demographic and economic information

- Aid in understanding the environment within which the financial activities take place
  - Principal taxpayers, population, etc.

### Operating information

- How does the government operate?
- What are its resources?
- What is the context for understanding and assessing its economic condition?





Government  
Finance Officers Association  
Award Program(s)



# GFOA Award Program

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- ❑ Financial statement related
  - Certificate of Achievement for Excellence in Financial Reporting Program
  - Popular Annual Financial Reporting Program
- ❑ Specific and detailed checklists to ensure completeness
- ❑ Judged by “eligible” people across the nation
  - Reviewers never from same state as applicant
  - Reviewers never from same firm that audited applicant





# GFOA Award Program

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**Certificate of  
Achievement for  
Excellence in  
Financial Reporting  
Program**

Established in **1945**  
by the Government  
Finance Officers  
Association (GFOA)

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Encourage and assist  
governments to go  
beyond minimum  
GAAP requirements

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Spirit of transparency  
and full disclosure

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# GFOA Award Program

## Certificate of Achievement for Excellence in Financial Reporting Program

- **Reports submitted are reviewed by:**
  - Selected members of GFOA professional staff
  - GFOA Special Review Committee (SRC)
  - Individuals with expertise in public-sector financial reporting
  - Includes Financial Statement preparers, independent auditors, academics, and other finance professionals

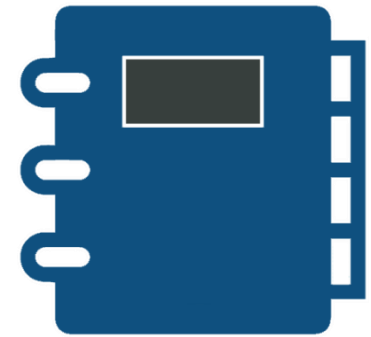




# Popular Annual Financial Report

## Popular Annual Financial Report (PAFR)

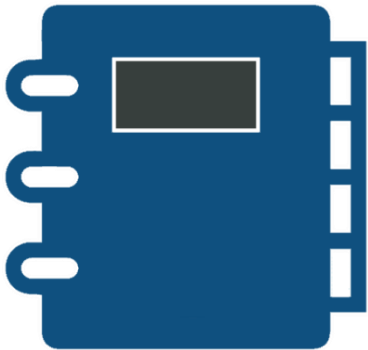
- Developed because many accounting professionals, politicians and others believe current governmental financial statements are:
  - Excessively complex **AND**
  - Not understandable except to those knowledgeable about governmental accounting





# Popular Annual Financial Report

## Popular Annual Financial Report (PAFR)



- Some governments issue popular reports
  - Simplified, summary type reports
  - Graphical presentation used to a greater extent than traditional financial statements
- GFOA offers a PAFR Award Program
  - Have to also issue a ACFR to participate





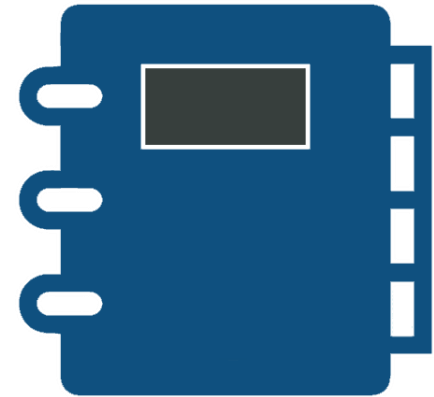
# Source Materials

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# Source Material – Florida Statutes

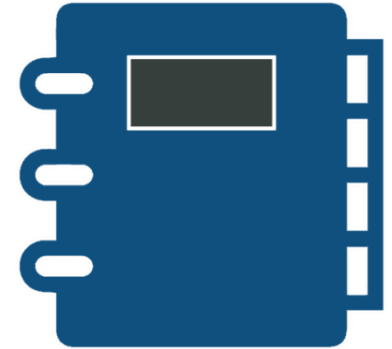
- ❑ **Chapter 218 – Financial Matters**  
Pertaining to Political Subdivisions
  - **218.32** – Annual financial reports; local governmental entities
  - **218.39** – Annual financial audit reports
  - **218.391** – Auditor selection procedures
  - **218.503** – Determination of financial emergency
- ❑ **11.45 – The Auditor General – Definitions; duties; authorities; reports; rules**





# Other Sources

- ❑ **Rules of the Auditor General** (Chapters 10.556 and 10.557)
- ❑ **Government Auditing Standards** (all chapters)
- ❑ **Yellow Book** (Specifically Chapter 3 – General Standards)



## GFOA Publications

- Debt Issuance and Management – A Guide for Smaller Governments
- Public Policy Statements – Accounting, Auditing and Financial Reporting
- Recommended Practices – Accounting, Auditing and Financial Reporting





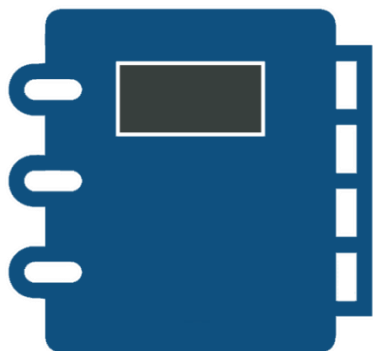
# Source Links

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Florida Statutes

<http://www.leg.state.fl.us/>

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Rules of the Auditor General

<https://flauditor.gov/pages/rules.html>

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Recommended Practices – Accounting, Auditing & Financial Reporting – GFOA

<http://www.gfoa.org/services/rp/caafr.shtml>

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Public Policy Statements – Accounting, Auditing and Financial Reporting – GFOA

<http://www.gfoa.org/services/policy/gfoapp1.shtml>

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# Source Materials - GAAP

## Governmental Accounting, Auditing, and Financial Reporting (GFOA Publication)

- 2012 Edition
  - All chapters
  - GAAFR Update Supplement, 2014 Edition







# Questions?



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Networking, Leadership and Information.



Florida Government Finance Officers Association

# Thank You!



The FGFOA is dedicated to being your professional resource by providing opportunities through Education, Networking, Leadership and Information.