

Common Reporting Errors in Governmental Financial Accounting

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Principal
State and Local Government

We'll get you there.

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1

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2

Learning Objectives

At the end of this session, you will be able to:

- Identify common reporting errors
- Recognize how to discuss reporting errors with the client in the context of governmental accounting
- Identify differences in reporting errors compared to other clients

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3

General Reporting Errors

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4

Footing

- Make sure everything in your reports foot and cross foot
- Common reasons for not footing
 - Rounding (including cents)
 - Hidden cells/rows

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5

Rounding (removing cents)

- Cents can cause footing errors as shown below:

1	1.03
4	4.49
6	5.52

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6

Hidden Cells/Rows

- When information is linked, hidden rows can cause footing errors as shown below

Cash	125
Inventory	25
	350

Cash	125
Receivables	200
Inventory	25
	350

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7

Other General Reporting Errors

- Remove any blank rows or columns
- Ensure all acronyms are defined at least once in the statements
- For cash flow statements – ensure provided by (used in) is correctly used as shown below:

Receipts from Other Funds						(25,571)
Other Receipts or Payments	(102,510)	88,025	1,118,807	(58,853)	-	1,025,869
Net Cash Provided By Operating Activities	18,543,789	\$5,688,802	43,215,018	3,952,713	7,248,889	86,248,201
Cash Flows from Noncapital Financing Activities						
Government Subsidies						
Transfers In - Other Funds	(4,933,257)	(2,218,628)	(2,538,894)	-	-	(9,690,779)
Transfers Out - Other Funds	(2,131,677)	(3,738,999)	(3,858,961)	-	-	(9,729,637)
Due From Other Funds	202,360	278,027	315,581	(446,742)	-	(150,744)
Due to Other Funds					399,731	399,731
Net Cash Provided By (Used In) Noncapital Financing Activities	(6,862,574)	(5,679,600)	(6,082,264)	(446,742)	399,731	(18,672,850)
						772,224

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8

Common Financial Statement Errors

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9

Completeness of Disclosures

- Ensure you have all required disclosures
- Disclosure checklists are a great tool to use
 - Walks through each reporting area and notes what information should be included in the financial statements

2.6 Inventories

Disclose:

- the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- the carrying amount of inventories carried at fair value less costs to sell;
- the amount of inventories recognized as an expense during the period;
- the amount of any write-down of inventories recognized as an expense in the period in accordance with IAS 2.34;
- the amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as expense in the period in accordance with IAS 2.34;
- the circumstances or events that led to the reversal of a write-down of inventories in accordance with IAS 2.34; and
- the carrying amount of inventories pledged as security for liabilities.

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10

Letter of Transmittal

- Use term “unmodified” rather than “unqualified” opinion when referencing the auditor’s opinion
- Date of the transmittal letter – no earlier than the date of independent auditor’s report
- Terminology update to Annual Comprehensive Financial Report

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11

Management’s Discussion & Analysis (MD&A)

- This is an analysis and should include additional information not just the amounts and percentages of the changes
- Amounts should agree to the amounts reported elsewhere in the financial statements

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12

Basic Financial Statements

- Deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension/OPEB plan investments earnings should be reported as a net amount

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	-	\$ 1,016,922
Changes in Assumptions	2,747,135	276,987
Change in Proportion	2,473,298	416,103
Net Difference Between Projected and Actual Earnings	-	6,594,937
Earnings on Pension Plan Investments	-	-
Difference Between Board Contributions and Proportionate Share of Contributions	193	577
Board Contributions Subsequent to the Measurement Date	2,220,611	-
Total	\$ 7,441,237	\$ 8,305,526

13

Net Investment in Capital Assets Calculation

- Incorrect calculation of the net investment in capital assets due to some of the following:
 - Not including the deferred amount on refunding
 - Using all debt rather than just debt used for the acquisition, construction, or improvement of capital assets
 - Not including retainage payable
- GFOA has a template to help ensure amount is properly calculated

14

Net Investment in Capital Assets Calculation (continued)

Net Investment in Capital Assets of a Reporting Unit ^a	
All capital assets of the reporting unit (both tangible and intangible)	\$
Less: Accumulated depreciation/amortization on these assets	
Net carrying value of capital assets (may be entered directly instead of entering above)	0
Less:	
Outstanding principal of capital debt and other capital borrowing ^b of the reporting unit (only that pertaining to the reporting unit's own capital assets). Exclude the portion of the debt of which proceeds were expended for capital personnel and excluding unspent proceeds ("capital related debt").	
Outstanding principal balance of debt and other borrowing used to refund capital-related debt, including refundings of refundings of capital-related debt, etc. ("capital refunding debt").	
Outstanding principal balance of any other capital-related liabilities as of fiscal year end, such as accounts payable and retainage payable for capital personnel.	
Unamortized balance of capital issue premiums on outstanding capital-related debt, including outstanding capital refunding debt.	
Unamortized balance of capital-related deferred outflows of resources, such as those "gains" on a refunding of capital-related debt and capital refunding debt, or those arising from the acquisition of a capital asset through a contract debt associated arrangement or through a service concession agreement or other public-private or public partnership.	
Plus:	
Unamortized balance of original issue discounts on outstanding capital debt.	
Unamortized balance of capital-related deferred outflows of resources, such as those "losses" on refunding of outstanding capital debt.	
Equals: Net investment in capital assets of the reporting unit	0

15

Governmental Fund Statements

- Inventories and prepaid items should be included in nonspendable fund balance.
- Only the general fund may report nonspendable fund balance for long-term loans and notes receivable, long-term interfund.
- In governmental funds other than the general fund, long-term loans, notes receivable, long-term interfund receivables, and property held for resale should be included in restricted, committed or assigned fund balance, as appropriate, based on limitations placed on use of funds.

16

Governmental Fund Statements

- A governmental fund other than the general fund should not report a positive balance in unassigned fund balance.
- Major fund calculations must be analyzed and updated each year

17

Fiduciary Funds

- If a pension trust fund is reported, the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources should be labeled "net position restricted for pensions"
- If an OPEB plan is reported, the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources should be labeled as "net position restricted for OPEB"

18

Fiduciary Funds (continued)

	OPEB Plan Trust
ASSETS	
Investments	\$ 31,456,282
Total Assets	<u>31,456,282</u>
NET POSITION	
Net Position Restricted for OPEB	<u>\$ 31,456,282</u>

19

Disclosures for Component Units

- Not including the full criteria in GASB 61 for why a component unit is blended. A government will often disclose that the governing body is substantively the same as that of the primary government but will fail to disclose a financial benefit or burden or operational responsibility for the component unit.
- Not including the full criteria in GASB 61 for why a component unit is discretely presented. A government may reference that a component unit is fiscal dependent, and not fully disclose if the component unit has the potential to provide specific financial benefits or impose specific financial burdens to the primary government.

20

Note Disclosures

- If the government is subject to a legal debt margin, the notes should disclose information on the legal debt limit.
- Disclosures should include significant encumbrances in total by each major fund and nonmajor fund in the aggregate in the significant commitment footnote.
- Amounts reported in the notes to the financial statements should be consistent with amounts reported on the face of the financial statements.

21

Note Disclosures Capital Assets

- Note disclosure should indicate that donated capital assets are reported at acquisition value. Some governments disclose they are reported at fair value.
- It is unclear why decrease in construction-in-process is greater than the increase in capital assets

22

Notes Disclosures Pension/OPEB

- A disclosure should be made stating the contributions made after the measurement date but before the year end, will be recognized as a reduction of the net pension/OPEB liability in the subsequent fiscal period rather than in the current fiscal year

	193	577
Difference Between Board Contributions and Proportionate Share of Contributions		
Board Contributions Subsequent to the Measurement Date	2,220,611	-
Total	<u>\$ 7,441,237</u>	<u>\$ 8,305,626</u>

\$2,220,611 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

23

Note Disclosures Pension/OPEB (continued)

- Notes should disclose whether the pension/OPEB plan is a single-employer, agent multiple-employer, or cost-sharing multiple employer defined benefit plan.
- Notes should disclose information about the employer balances of deferred outflows of resources and deferred inflows of resources for each pension and OPEB plan

24

Note Disclosures Pension/OPEB (continued)

- The notes should disclose aggregate amount for all plans the following information:
 - Pension/OPEB liabilities
 - Pension/OPEB assets
 - Deferred outflows of resources
 - Deferred inflows of resources
 - Pension/OPEB expense

25

Note Disclosures Pension/OPEB (continued)

	County Retirement Plan	Police & Fire Plan	Total
As of June 30, 2021			
Total net pension liabilities (asset)	\$ (49,699,409)	2,427,404	(47,272,005)
Total deferred outflows of resources from pension	22,754,326	64,080,290	86,834,616
Total deferred inflows of resources from pension	81,557,854	97,690,746	179,248,600
For the year ended June 30, 2021			
Total pension expense	\$ (5,347,028)	4,996,481	(350,547)

26

Required Supplementary Information

- If a pension/OPEB plan is administered through trusts, the RSI schedules should use "covered payroll" rather than "covered-employee payroll"
- Covered payroll is the payroll on which contributions to a pension plan are based

27

Required Supplementary Information (continued)

- Schedule of Funding progress is based on measurement date, while the schedule of employer contributions is based on the government's fiscal year end. The covered payroll for these schedules should not agree.

28

Required Supplementary Information (continued)

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST TEN FISCAL YEARS

	Measurement Date				
	2021	2020	2019	2018	2017
Employees' Retirement and Pension System:					
State's Proportionate Share of the Net Pension Liability	\$ 1,624,217	\$ 20,521,714	\$ 17,702,185	\$ 17,244,628	\$ 15,255,948
State's Covered Payroll	\$ 20,893,321	\$ 20,529,041	\$ 20,560,590	\$ 19,224,693	\$ 18,992,196
State's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	8.25%	100.00%	86.10%	89.72%	80.32%
Plan's Unfunded Actuarial Liability as a Percentage of the Total Pension Liability	79.73%	85.26%	87.89%	89.26%	89.73%

SCHEDULE OF CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST TEN FISCAL YEARS

	Measurement Date				
	2021	2020	2019	2018	2017
Employees' Retirement and Pension System:					
Contributions Required Contribution	\$ 2,398,891	\$ 2,891,821	\$ 2,829,041	\$ 2,892,196	\$ 2,892,196
Contributions Reported to the Comptroller	\$ 2,398,891	\$ 2,891,821	\$ 2,829,041	\$ 2,892,196	\$ 2,892,196
Contributions (Over/Under)	\$ -	\$ -	\$ -	\$ -	\$ -
Health-Covered Employee Payroll	\$ 23,988,891	\$ 20,893,321	\$ 20,560,590	\$ 19,224,693	\$ 18,992,196
Contributions as a Percentage of Covered Payroll	10.0%	13.8%	13.8%	15.0%	15.3%

29

Supplementary Information – Combining and Individual Fund Statements and Schedules

- Presentation of information other than combining and individual statements should be titled "schedules" rather than "statements"

Non-Major Governmental Funds:	
Combining Balance Sheet – Non-Major Governmental Funds	130
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	131
Combining Balance Sheet – Non-Major Special Revenue Funds	132
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Special Revenue Funds	133
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budgetary Basis	
Agricultural Land Preservation Fund	134
Community Renewal Programs Fund	135
Environmental Services Fund	136
Fire and Rescue Reserve Fund	137
Forest Conservation Fund	138
Recreation Program Fund	139

30

Supplementary Information – Combining and Individual Fund Statements and Schedules (continued)

- Amounts reported in the total column on the combining schedules should be easily traced to the corresponding column in the basic fund financial statements.
- A government may not report a negative amount of restricted, committed, or assigned fund balance in any fund

31

Supplementary Information – Combining and Individual Fund Statements and Schedules (continued)

- Budgetary Reporting
 - Include budgetary comparison for nonmajor special revenue funds, debt service funds, capital project funds, and permanent funds that have legally adopted annual budgets
 - Omission could result in a GFOA award qualification or denial

32

Statistical Section

- Ratio of debt service as a percentage of noncapital expenditures is not correctly calculated.
 - To calculate the ratio, divide total debt service expenditures (principal and interest only) by the total noncapital expenditures.
 - Total noncapital expenditures (the difference between total expenditures and capitalized capital outlay expenditures).
- Amounts reported in the Statistical Section do not trace to the basic financial statements.

33

Statistical Section (continued)

- Amounts presented in the debt capacity schedules should be the same amounts reported in the basic financial statements (net of related premiums, discounts and adjustments).
- Premiums and discounts are not being included in the amounts in the statistical section.

34

Statistical Section (continued)

- Governments should indicate the source of all non-accounting data presented

Calendar Year	Population ¹	Personal Income (Amounts Expressed in Thousands) ²	Per Capita Personal Income
2013	214,114	\$ 10,076,103	\$ 47,060
2014	217,853	\$ 10,638,553	\$ 48,834
2015	220,289	\$ 11,322,625	\$ 51,400
2016	223,170	\$ 11,707,912	\$ 52,462
2017	227,032	\$ 12,376,504	\$ 54,514
2018	228,763	\$ 12,869,576	\$ 55,378
2019	231,436	\$ 13,033,423	\$ 56,360
2020	226,610	\$ 13,735,773	\$ 60,614.15
2021	228,804	N/A	N/A
2022	N/A	N/A	N/A

1 Source: U.S. Census Bureau
 2 Source: U.S. Bureau of Economic Analysis
 3 Source: Virginia Department of Education
 4 Source: Virginia Employment Commission LAUIS (Unadjusted)

35

Questions?

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36