GUARDIANS
OF THE FINANCE
GALAXY
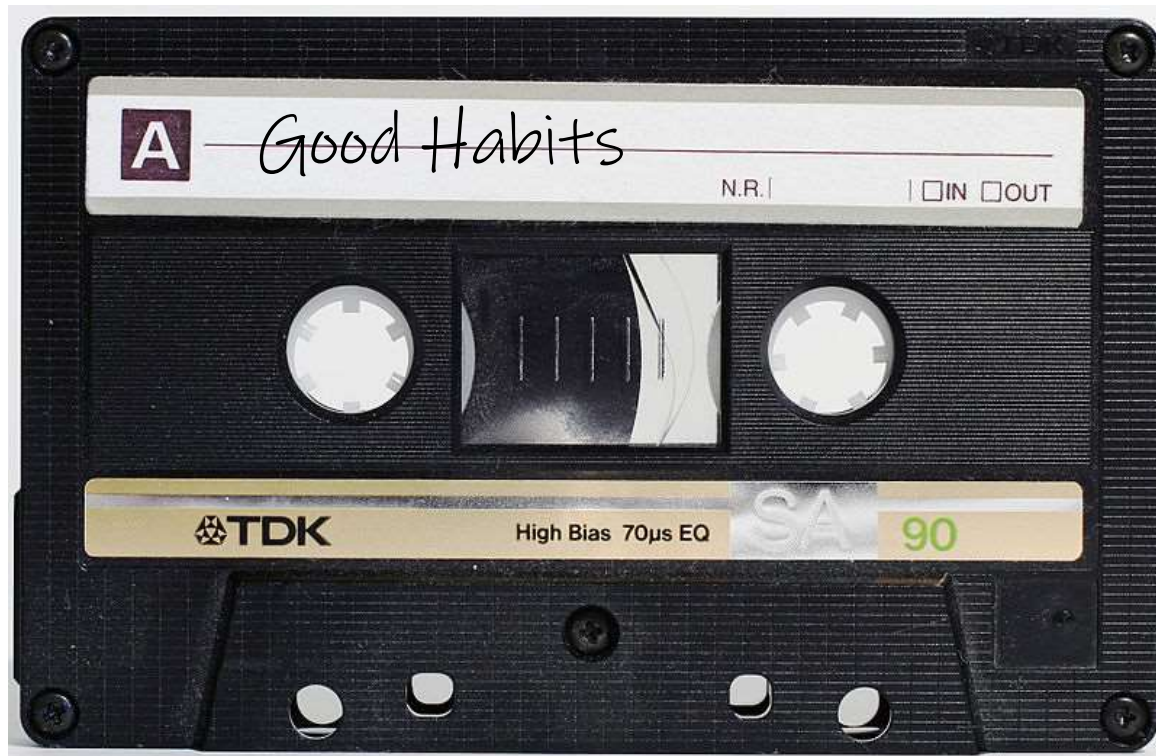THE 2019 CSMFO ANNUAL CONFERENCE
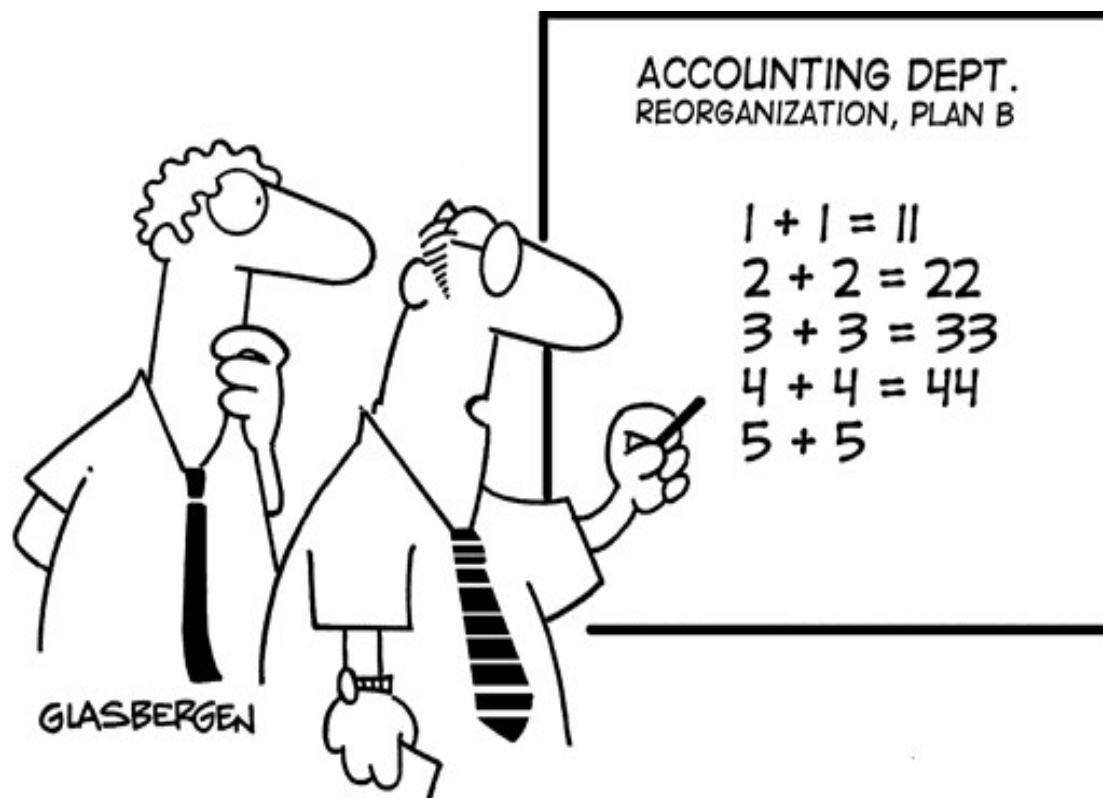
TRACY
Think Inside the Triangle™

Balancing the Balance Sheet:
Good Habits to Adopt

MAZE
& ASSOCIATES

Awesome Conference Mix Vol. 62

Create a Mix of Good Habits
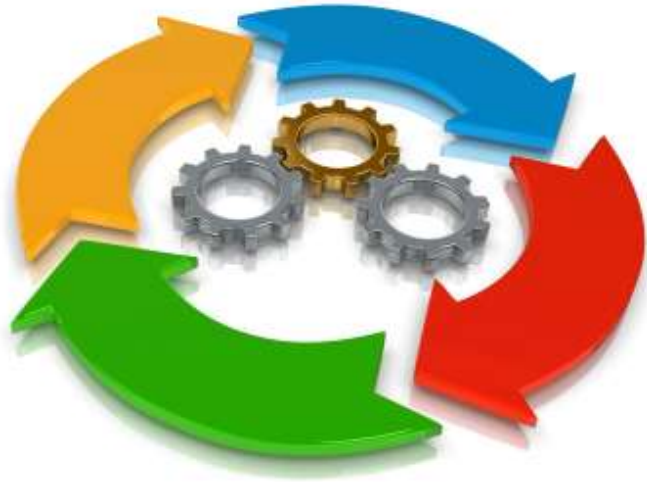
10. Internal Control Habits:
Review Staff Assignments

✓ FRAUD DETECTION
✓ ASSET MISAPPROPRIATIONS
✓ REDUCTION OF ERRORS

Segregation of duties is the means by which no one person has sole control over the lifespan of a transaction; the acquisition of assets, their custody, and the related record keeping.

➢ Every organization has a certain tolerance for risk.

- **Internal Controls** in accounting are procedures put in place within an organization to ensure business is carried out in an orderly, effective and accurate manner.
  - Developing a balance between sufficient procedures to protect the assets, while efficiently meeting business needs.
  - Promote the thoughtful and efficient use of organization resources.

Do you have the right person doing the job right; right now?
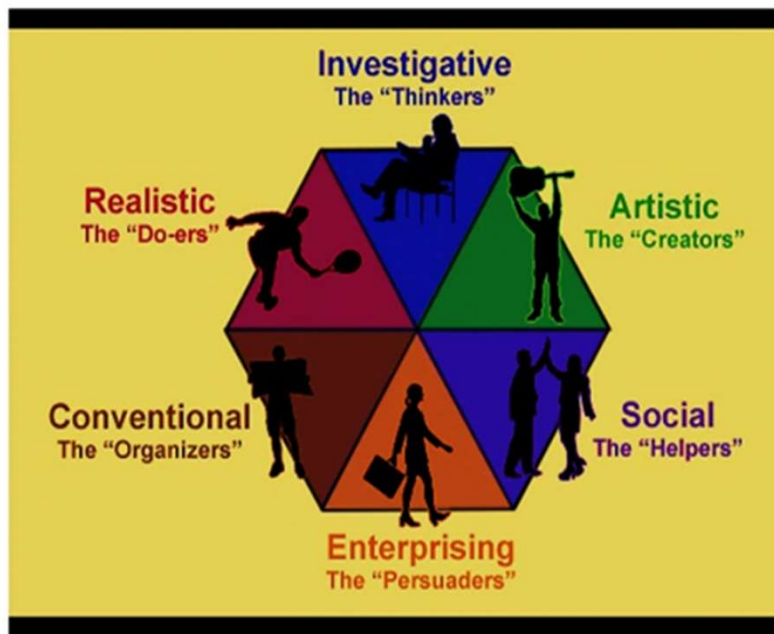
- Segregation of Duties
- Job knowledge and professional skills
- Balancing workload among staff
- All tasks are performed and all tasks are reviewed
- Evaluating the value of the task versus the value of the person completing the task

- **Review staff assignments at least semi-annually**
  - Have changes to duties (new and/or revised) caused unmitigated internal control conflicts?
- **Review System Access**
  - Review staff access to the General Ledger System and all critical modules at least annually, or at minimum when there is a change in duties
- **Review Workflow**
  - Tasks are appropriately assigned and supervised
    - Develop a formal policy and procedure (whether the process is electronic or physical pen to paper)

# 9. Planning Habits: Employee Development

Anticipating changes in the workforce

- Workforce changes are an important cycle, but the disruption can lead to instability.

- OR they can lead to growth and opportunity.

1. Create an organization that has the right team and skillsets to develop and execute a risk and controls strategy.

2. Allow controls team to develop and refine a risk assessment to account for new and evolving risks and changes in processes, embedding risk evaluation in the integration.

3. Ensure the team continues to learn via continuing education (see Habit #3)
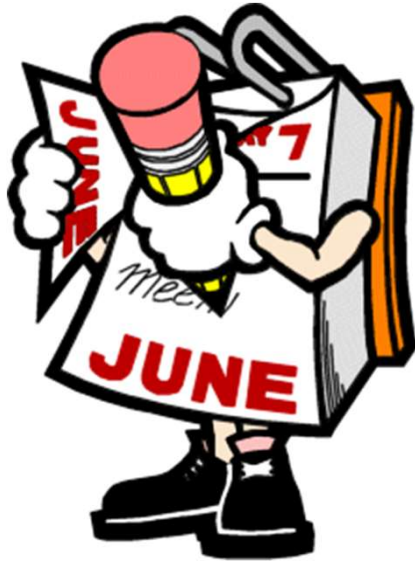
8. Time Management Habits:
Maintain a Department **AND** a Desk Calendar

Department vs. Desk Calendars

Department Calendar

- Annual reports and audits
  - Streets Report, State Controller, Transit, etc…
  - W-2's, 1099
  - Grant reporting
  - Other regulatory filings
- Quarterly and Monthly reconciliations
  - State/Federal Taxes

Desk Calendar

- Once a year processes and exception reporting
- Daily duties to meet regular assignments

Example:

A/P: invoice deadlines
- entry verification,
- manager approval,
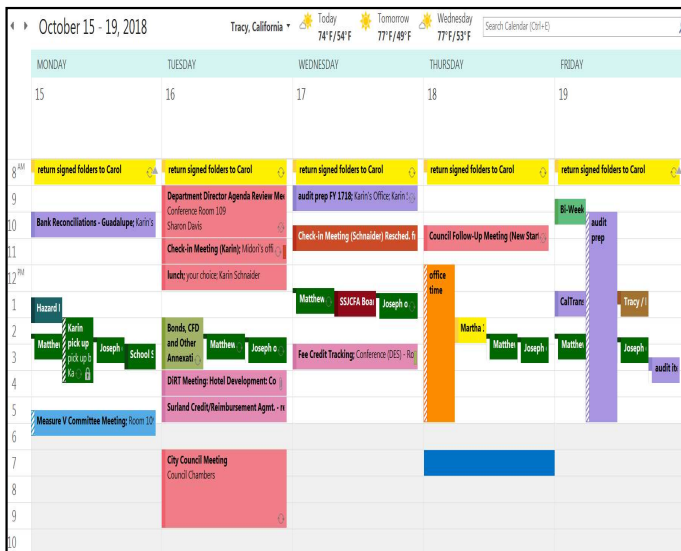- bank file transmittal,
- posting and clearing

WHY DONT THEY JUST APPROVE THE INVOICE?

*Use Outlook to Set
Task or Date Reminders*

The **Deadline** before the Deadline

- Help manage your staff by identifying the Deadline you need to review and approve **before** the final deadline.
  - ✓ Allow time for edits and re-dos.
  - ✓ Allow time for interruptions, delays, or other issues that arise.

- Schedule routine reminders on your calendar

- Set aside time to for routine and non-routine approval and processing time

Get organized! And Stay Organized!

Establish Major Task Lists

- Once you know what these main tasks are, you can create sub-tasks for each.
  - ✓ What do you need to achieve for each task to be complete?
  - ✓ How long will each of these micro-tasks take?
  - ✓ What is the order of priority?
  - ✓ Now add up how long your tasks will take.
    - This will help you to know whether they're achievable.
    - If they're not, defer or delegate.

Ohhh, finally I have balanced it!
AccountingGoodies.com

7. Asset Management
    Habits:
    Balance your Cash
    Monthly

Cash eventually touches every other account in your financials.

✓ **It promotes accounts to be in good standing.**
✓ **It deters fraud.**
✓ **It helps you detect accounting errors.**
✓ **It supports reconciliation of accounting practices.**

REVENUES
• CASHIERING
• DIRECT DEPOSITS

OTHER ASSETS
• PREPAIDS
• ADVANCES TO OTHER FUNDS
• CAPITAL ASSETS

CASH

LIABILITIES
• PAYABLE
• DEPOSITS
• LOANS

EXPENSES
• PAYROLL
• INVOICES
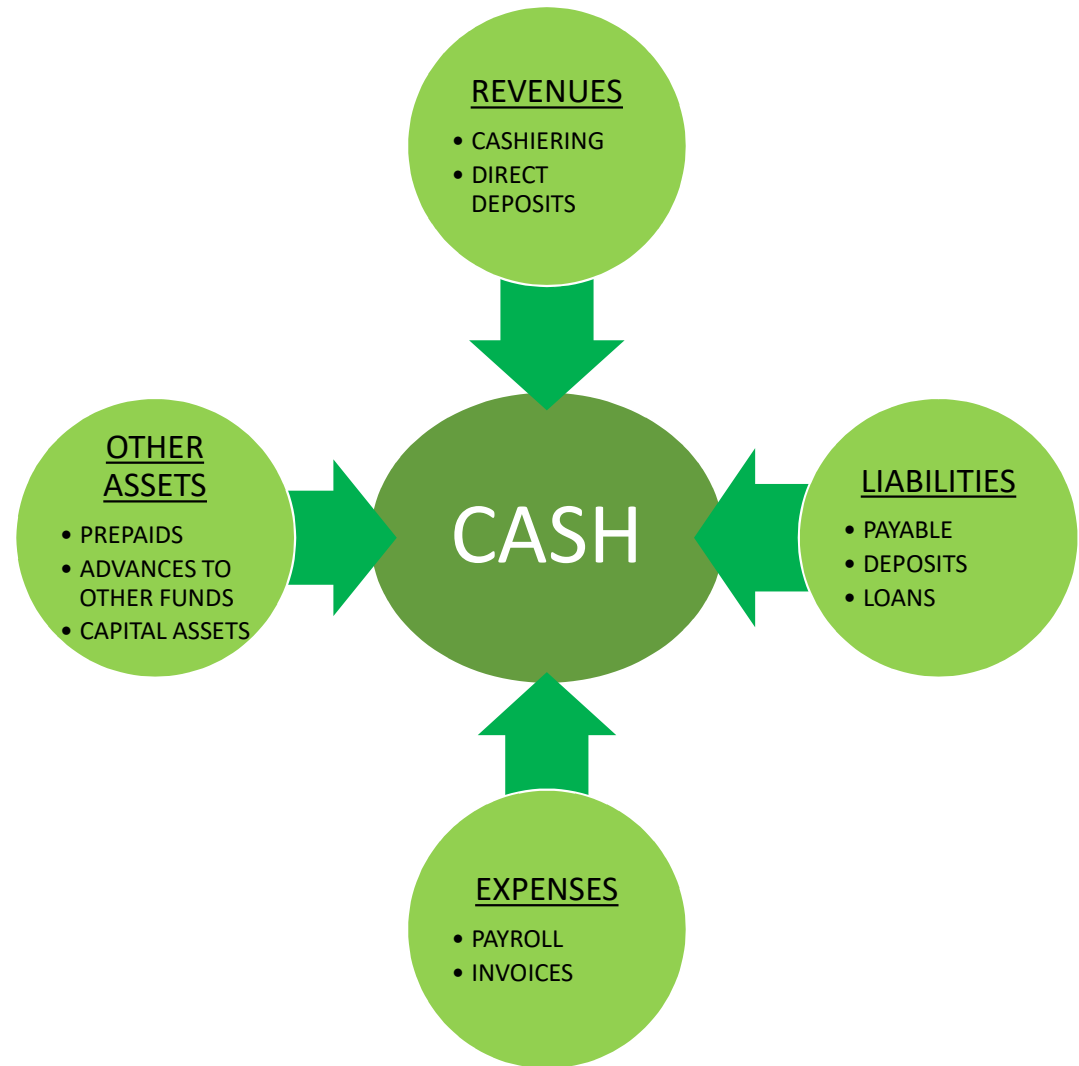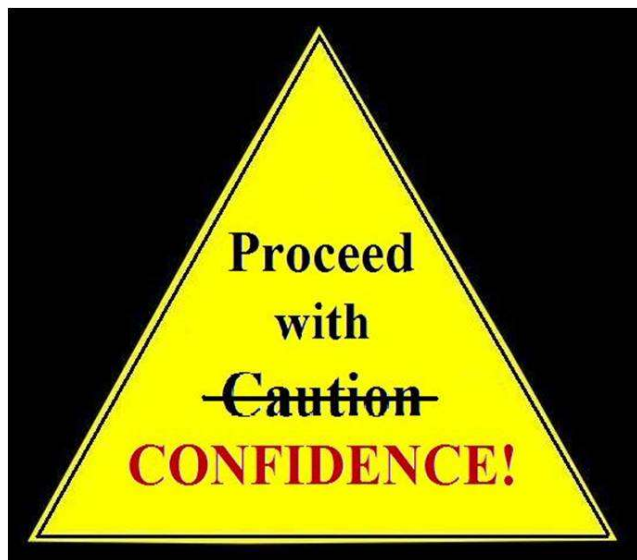
Bank Reconciliation Tips

✓ Develop must-do items:
- Clearing checks and deposits;
- Post bank fees and interest earnings;
- Reconcile fixed income accounts
- Clear out aging reports
- Check for unposted batches

➢ **Receivables Tracking:**
- ✓ Create lead sheets for EFT payments to ensure timely recording
- ✓ Assign separate bank deposit accounts for offsite payment centers

➢ **Payable Tracking:**
- ✓ Have a process to initiate, approve, and post wire payments; especially between fiscal agent accounts
- ✓ Review and confirm prior month's outstanding check list
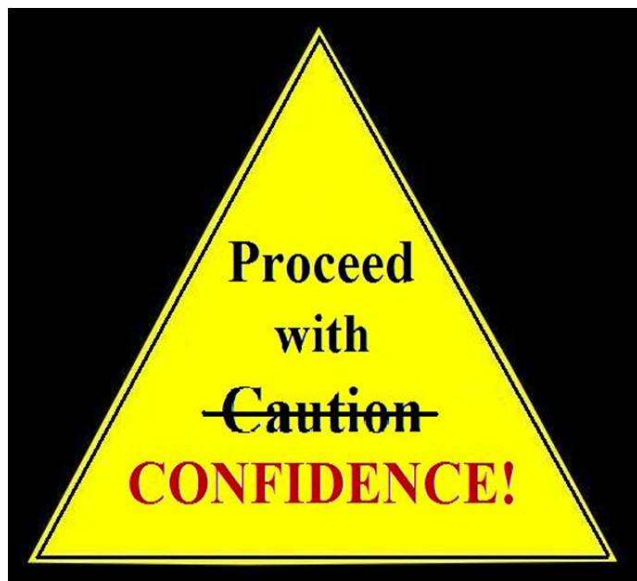
Bank Reconciliation Tips

✓ Identify processes that creates repeated time differences

✓ Identify areas general ledger posting dates may be impacted

✓ Identify journal entries that impact cash

- Offsite deposits and imports were recorded
- Voided check dates: reissue or stop payment
- Payroll vendors (IRS, CalPERS, Health) disbursements after payroll batches
- Cashiering Batches versus Bank Processes:
  ➢ Checks, cash, credit cards all have different impacts on bank statements

Bank Reconciliation Tips: Cash Flows
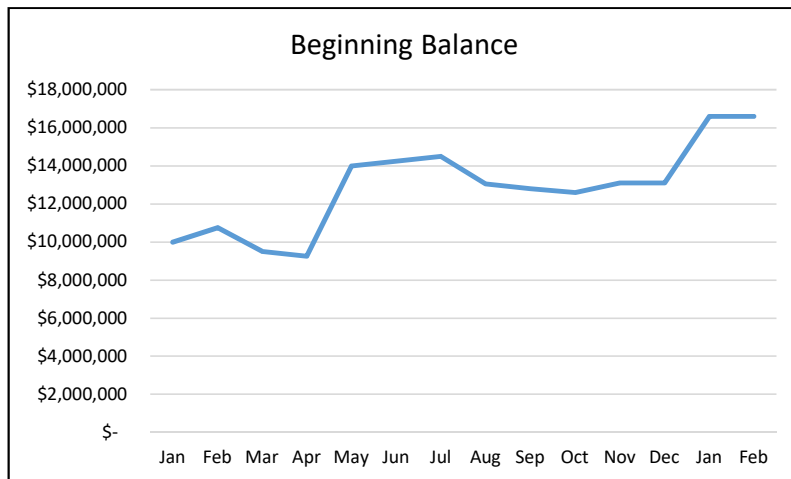
Beginning Balance

- ✓ Develop and maintain cash flows
  - Plan for large expenses or payments
  - Invest idle cash
  - Analyze variances
  - Forecast modeling

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Beginning Balance	$ 10,000,000	$ 10,750,000	$ 9,500,000	$ 9,250,000	$ 14,000,000	$ 14,250,000	$ 14,500,000	$ 13,050,000	$ 12,800,000	$ 12,600,000	$ 13,100,000	$ 13,100,000	$ 16,600,000	$ 16,600,000
Property Tax				$ 5,000,000								$ 5,000,000		
Sales Tax	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,500,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000
Other Tax	$ 500,000													
Payroll	$ (1,400,000)	$ (1,400,000)	$ (1,400,000)	$ (1,400,000)	$ (1,400,000)	$ (1,400,000)	$ (2,900,000)	$ (1,650,000)	$ (1,650,000)	$ (1,650,000)	$ (1,650,000)	$ (1,650,000)	$ (1,650,000)	$ (1,650,000)
Debt		$ (1,000,000)							$ (250,000)					$ (1,000,000)
Accounts Payables	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)	$ (350,000)
Capital Purchases		$ (500,000)	$ (500,000)	$ (500,000)			$ (200,000)		$ (200,000)			$ (1,500,000)		

*Helpful tip: Update and roll forward at least quarterly

6. Reporting Habits: Develop Month-End Closing Procedures

Closing Process is a Management Tool

✓ Financial reports are intended to meet the needs of decision makers:

- Ability to detect patterns or one-time events

- Assess current and relevant numbers

- Evaluate Actual to Budget outcomes

The accuracy of the financial statements depends on the accuracy, completeness and timeliness of the supporting records.

Completeness

Accuracy
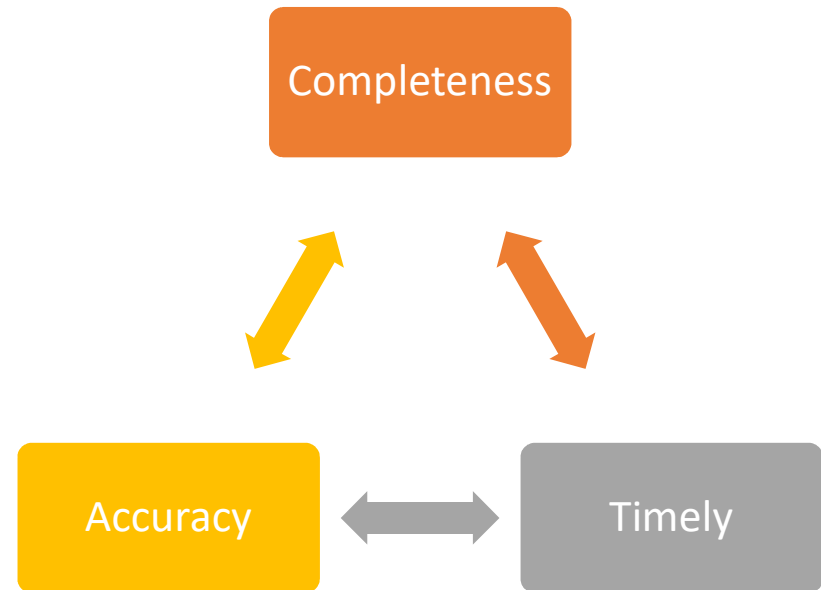
Timely

Avoid the Year-End Rush- Close Monthly

- Promotes the timely collection of year-end information
  - Inventory changes
  - Fixed Assets purchases, replacements, or disposal
  - Current receivable and liabilities updated
- Find and correct discrepancies timely
- Identify and archive variances
- Streamlines the audit process – you're always ready!

Benefits of Monthly Closing

- Promotes the use of standard journal entries for consistency between monthly closings
  - Example: ISF payments; interest allocation; bank fees
- Supports budget projections, cash flow, and annual accruals
- Preserves account activity; including keeping monthly cash balanced
  - Keeps activity from being backdated (i.e.: voided checks and customer payments or credits)
  - Encourages budget and account reconciliation

5. Accountability and Transparency Habits: Develop Permanent Fund Files

IMPORTANCE OF
RECORD KEEPING

➢Prepares for records requests (internal or external)
➢Provides context to changes in balance sheet
➢Provides historical reference
➢Prepares for audit

Helpful Tips!

✓ Documents can be paper or electronic.

✓ Document retention promotes transparency habits.

✓ Documents add substance and credibility to accounts.

Examples of Documents in Fund Files

Fund Purpose
Statutory Regulations: Guidelines; authorized uses
Audit or other filing requirements
Debt-Amortization, terms, payment due dates

Resolutions
- Budget Authorizations
- Contracts-MOUs; Capital Purchases; Major Vendors (major projects)

JE postings
- Material JE postings
- Quarterly/Reoccurring JEs
- JEs affecting Fund Balance

Trial Balance
- Quarterly Updates
- Annual
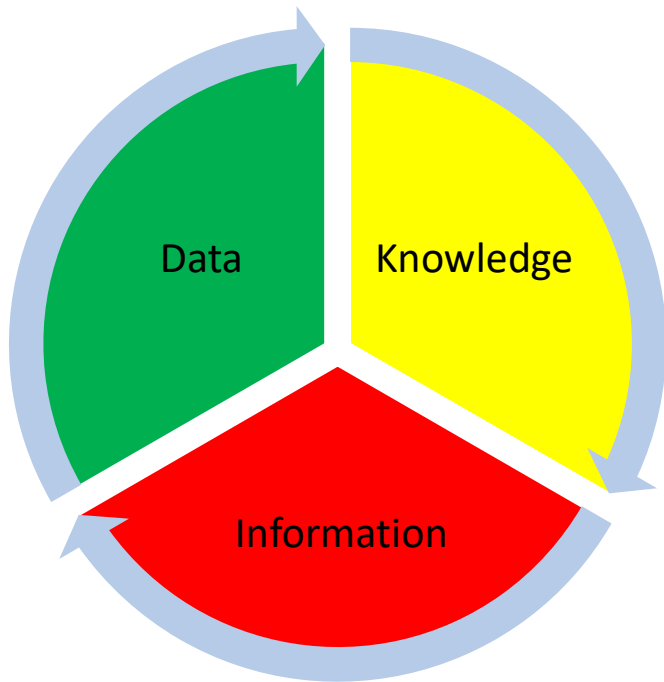
Reliability and Relevance Habits:
4. Optimize Your ERP
3. Enhance Your Skills and Knowledge

Software is more than just the General Ledger

➤ CAFR Software
  ➤ Integrated Cashiering
    ➤ Position Control
      ➤ Budget Projections
        ➤ Bank Reconciliation

Use Technology to Improve Efficiency and Transparency!

Update Your Software!

Update does not have to mean full replacement.

- *Check for new functions*

- *Integrate applications*

- *Automate processes*

- *Digitize records*

Update and Consolidate Your Chart of Accounts

- Chart of Accounts is the skeleton to the financial records-
  - too many weigh it down
  - too few don't hold it up

- Every budget year is an ***opportunity*** to fine tune the chart of accounts

How complicated has your balance sheet become? Can everyone still understand it?

Balance Sheet

| Assets and Deferred Outflows | = | Equity / Liabilities and Deferred Inflows |

CITY OF TRACY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

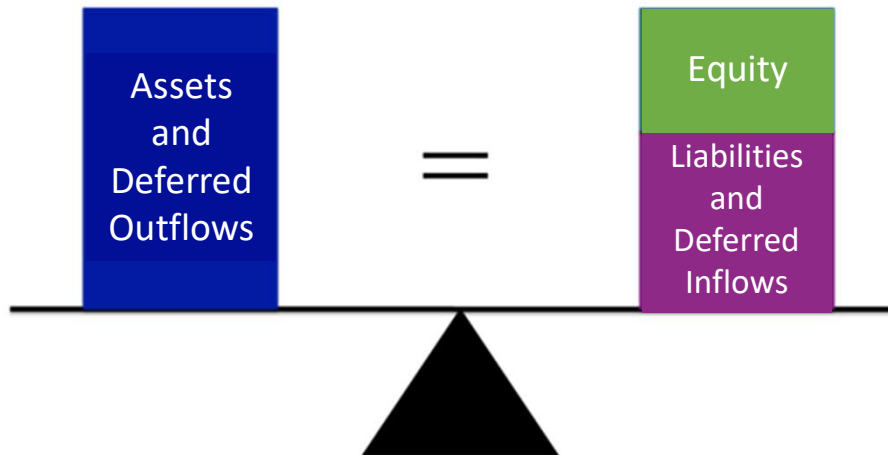|	General	Housing Successor	TEA Grant	South County Fire Authority	Community Development Fees
ASSETS					
Cash and investments (Note 3)	$29,021,461	$847,400	$10,516	$1,527,108	$9,181,264
Restricted cash and investments (Note 3)		51,671			
Cash and investments with fiscal agents (Note 3)					
Accounts receivable	6,413,188		5,946,803	1,262,108	1,132,499
Interest receivable	41,153	2,510		3,771	
Due from other funds (Note 4)	1,966,600				
Prepaid items	774				330
Deposits (Note 5I)					
Loans receivable (Note 5)	524,443	12,824,183		5,122,537	
Advances to CDA successor agency (Note 5)		2,803,520			
Advances to other funds (Note 4)	5,366,594				
Total Assets	$43,334,213	$16,529,284	$5,957,319	$7,915,524	$10,314,093
LIABILITIES					
Accounts payable	$1,601,937		$95,073	$60,866	$1,124,103
Due to other funds (Note 4)			5,150,000		
Deposits payable	754,686			18,838	9,316,260
Advances from other funds (Note 4)				5,122,537	
Unearned revenue	302,723				1,359,794
Total Liabilities	2,659,346		5,245,073	5,202,241	11,800,157
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - accounts receivable			3,655,333	902,774	
Unavailable revenue - loans	19,270	$12,824,183			
Total Deferred Inflows of Resources	19,270	12,824,183	3,655,333	902,774	
FUND BALANCES					
Fund balance (Note 9):					
Nonspendable					
Prepaid items	774				330
Advances	5,366,594				
Loans receivable	505,173				
Restricted		3,705,101		1,810,509	
Assigned	358,441				
Unassigned	34,424,615		(2,943,087)		(1,486,394)
Total Fund Balances	40,655,597	3,705,101	(2,943,087)	1,810,509	(1,486,064)
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$43,334,213	$16,529,284	$5,957,319	$7,915,524	$10,314,093

See accompanying notes to basic financial statements

Provide, Encourage and Expand Staff Training

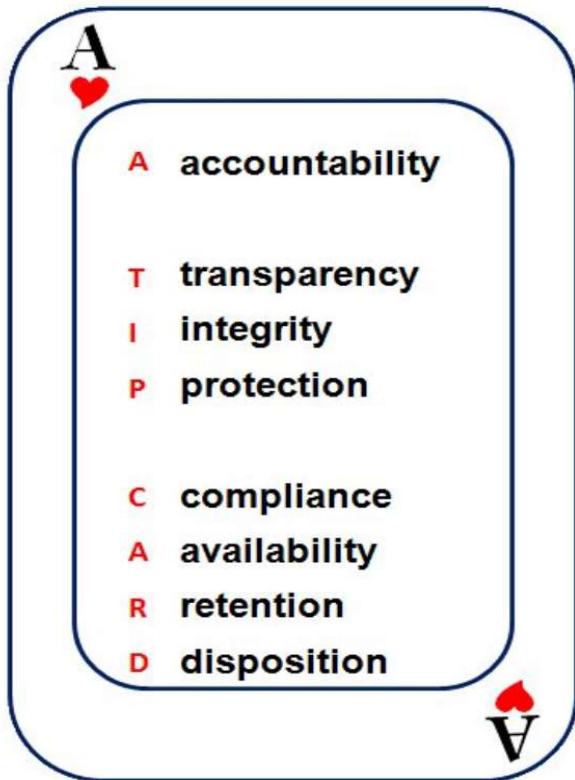## Training Courses!

Resources!

- Blue Book
- GASB Online
- Grants or State Guidelines
- Office of Management and Budget (OMB)
- COSO Framework

2. Analysis Habits: Understand an Account's Affect on Fund Balance

Can you answer these questions?
Can you answer them about *every* fund?

A	accountability
T	transparency
I	integrity
P	protection
C	compliance
A	availability
R	retention
D	disposition

- What were the major sources of the increases/decreases in the accounts?

  Or

  Why hasn't the account changed?
  - What was it expected to do?
  - Will it repeat? (Do you want it to repeat?)

- Who is responsible for the fund or account?

- Did it affect Cash?

Auditor's Focus
Balance Sheet and Income Statement

1. **Internal Control** – isn't only related to revenues and expenditures – it encompasses financial reporting

2. **Audit** – purpose is not to verify 100% of the balances

3. **FS Closing Process** – purpose *is* to analyze and support all balances

4. **TB** - Does it balance?

Auditor's Focus
Balance Sheet and Income Statement

5. **Beginning Fund Balance/Net Position** – agrees to PY audit?

6. **Balance Sheet** – now consists of 5 elements, but GL may only have 3 – is that a problem?

7. **Income Statement Accounts** – include 12 months of activity?

8. **Budget/Actual Analysis** – very important part of closing
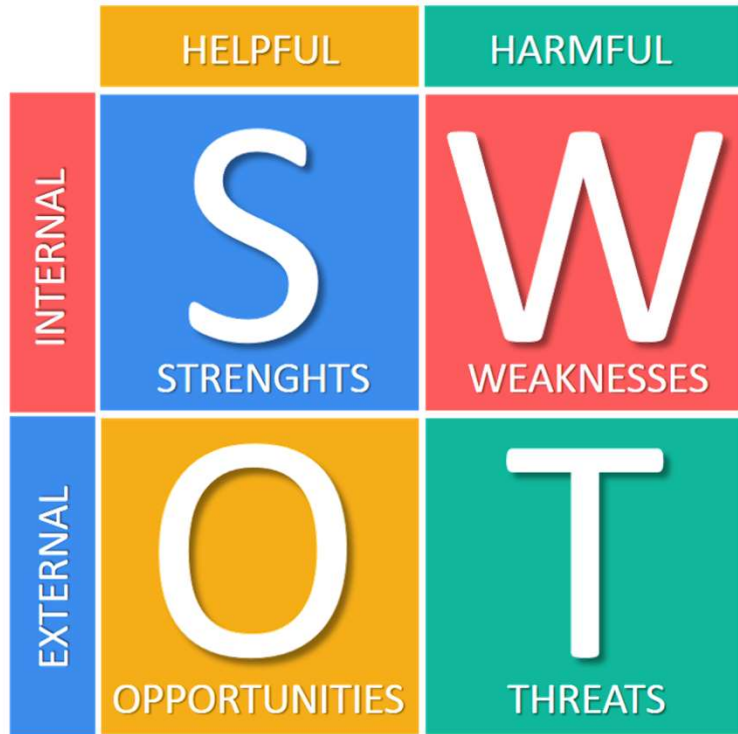
1. Risk Assessment Habits:
   Adopt a SWOT Habit

Five Elements of Internal Control:

A SWOT analysis is taking a look at your:
Strengths. Weaknesses. Opportunities. and Threats.

The COSO framework is an on-going analysis of your:
Control Environment.
Risk Assessment.
Control Activities.
Monitoring Activities.

Information and Communication

Analyze the influences that are impacting your accounts

- Staff Report, Resolution and Contract Review
- Quarterly update and budget forecasts
- State and County economies
- Revenue trends: housing, retail, or tourism
- Changes in laws
- Politics and elections

SWOT Tool: Audit Findings

Hints and Tips

❖ View your Audit Findings and Memorandum on Internal Control (MOIC) comments as a chance to consider taking on new practices, processes, and new habits.

❖ Assess Cost/Benefit of Implementation

Understand Risk Management	Recognize improvements
Audit Findings	
Establish new standards	Evaluate another perspective

Putting It All Together – What Habits Do You Already Employ?

10.	Internal Control	Review Staff Assignments
9.	Planning	Employee Development
8.	Time Management	Maintain a Department **AND** a Desk Calendar
7.	Asset Management	Balance Your Cash Monthly
6.	Reporting	Develop Month-End Closing Procedures
5.	Accountability and Transparency	Develop Permanent Fund Files
4.	Reliability and Relevance	Optimize your ERP
3.	Reliability and Relevance	Enhance Your Skills and Knowledge
2.	Analysis	Understand an Account's Affect on Fund Balance
1.	Risk Assessment	Adopt a SWOT Habit