



# Discover GFOA Best Practices

Michele Mark Levine, GFOA

# Agenda

- ❑ Overview of GFOA's Best Practices (BPs) and Advisories
- ❑ Accounting & Financial Reporting BPs and Advisories
  - Auditing
  - Accounting
  - Internal Controls
  - Financial Reporting
- ❑ Topics covered by BPs on subjects other than accounting, auditing and financial reporting
- ❑ Tour of GFOA Materials Library

# Categories of GFOA Best Practices and Advisories

- ☐ Accounting & Financial Reporting

- ☐ Budgeting

- ☐ Capital Planning

- ☐ Debt Management

- ☐ Economic Development

- ☐ Pension & Benefit Administration

- ☐ Procurement

- ☐ Risk Assessment

- ☐ Treasury & Investment Management

- ☐ Financial Leadership

- Financial Policies

- Role of the Finance Officer

# Overview



# What and Why

## **GFOA Best Practices**

- Identify specific policies and procedures that contribute to improved government management
- Aim to promote and facilitate positive change or recognize excellence rather than merely to codify current accepted practice

## **GFOA Advisories**

- Identify specific policies and procedures necessary to minimize a government's exposure to potential loss in connection with its financial management activities

# Who

- **GFOA's standing committees are primarily responsible for recommending and updating BPs and Advisories**
  - Accounting, Auditing and Financial Reporting Committee (AAFRC)
  - Committee on Governmental Budgeting and Fiscal Policy (BUDGET)
  - Committee on Governmental Debt Management (DEBT)
  - Committee on Economic Development and Capital Planning (CEDCP)
  - Committee on Retirement and Benefits Administration (CORBA)
  - Committee on Treasury and Investment Management (TIM)
  - Committee on Canadian Issues (CCI)

# Where

☐ GFOA.org → Best Practices & Resources → Best Practices

The screenshot shows the GFOA.org website with the URL <https://www.gfoa.org/best-practices--resources> in the browser address bar. The page features a navigation menu with the following sections: MEMBERSHIP & EDUCATION, **BEST PRACTICES & RESOURCES** (highlighted with a yellow circle), ADVOCACY & AWARDS, and I WANT TO. Under the **BEST PRACTICES & RESOURCES** section, there are four sub-sections: RESOURCES >, **BEST PRACTICES >** (highlighted with a yellow circle), PUBLICATIONS & REPORTS >, and ANNUAL CONFERENCE >. The **BEST PRACTICES >** sub-section lists: Ethics and Trust, Rethinking Police Budgeting, Imposed Fee and Fine Use by Local Governments, COVID-19 Debt Disclosures, Accounting & Financial Reporting, Employment Resources for Finance Officers, and Federal Advocacy. The **BEST PRACTICES & RESOURCES** section also lists: RESEARCH & CONSULTING > (with sub-items: Consulting Services, ERP Advisory Services, and Inquire About our Services), INTERACTIVE DASHBOARDS >, and FISCAL FIRST AID >. The PUBLICATIONS & REPORTS > section lists: Publications, E-Books, and Research Reports. The ANNUAL CONFERENCE > section lists: FINANCIAL FOUNDATIONS FRAMEWORK >, SMARTER SCHOOL SPENDING >, Alliance for Excellence in School Budgeting, THE BLUE BOOK (GAAFR) >, and GFOA BUYERS GUIDE >.

# Best Practices Categories and Subcategories

□ <https://www.gfoa.org/best-practices/accounting-and-financial-reporting>

Home / Best Practices & Resources / GFOA Best Practices / Accounting and Financial Reporting

## Accounting and Financial Reporting Best Practices

**AUDITING** ACCOUNTING INTERNAL CONTROLS FINANCIAL REPORTING



# Accounting & Financial Reporting Best Practices



# Accounting & Financial Reporting

# **AUDIT**



# Subcategory: Audit

## Best Practices

- [Audit Committees](#)
- [Audit Procurement](#)
- [Internal Audit Function](#)
- [Multiple Auditors](#)

## [Advisory: Offering Statements and the Independent Auditor's Role](#)



BEST PRACTICES

### Audit Committees

Establish audit committees, made up of appropriate audit committee members, that are responsible for review, oversight, establishing procedures, and providing a written report.



BEST PRACTICES

### Audit Procurement

Select services that include a broad scope of financial presentations and perform their audits in accordance with the Generally Accepted Government Auditing Standards. Governments should enter into multiyear agreements and undertake a full-scale competitive selection process.



BEST PRACTICES

### Internal Audit Function

GFOA recommends that every government should consider the feasibility of establishing a formal internal audit function to help management maintain a comprehensive framework of internal controls.



BEST PRACTICES

### Multiple Auditors

Governments should determine whether it is involved in a group audit, ensure that communication is timely and appropriate among group and components auditors, and determine how subsequent events will be addressed.



ADVISORIES

### Offering Statements and the Independent Auditor's Role

The government should feel free to use audited financial statements as appropriate, should not permit auditors to create an artificial "involvement", take steps to avoid unwarranted delays and costs, and clarify publishing permission within audit contract

# Audit Committees (1/1)

## BEST PRACTICES



### Audit Committees

Establish audit committees, made up of appropriate audit committee members, that are responsible for review, oversight, establishing procedures, and providing a written report.



Three main groups are responsible for the quality of financial reporting: the governing body,<sup>1</sup> financial management, and the independent auditors. Of these three, the governing body must be seen as first among equals because of its unique position as the ultimate monitor of the financial reporting process.<sup>2</sup> An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices.<sup>3</sup>

# Audit Committees (2/6)

GFOA makes the following recommendations regarding the establishment of audit committees by state and local governments:

- The governing body<sup>4</sup> of every state and local government should establish an audit committee or its equivalent;
- The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means and made directly responsible<sup>5</sup> for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.<sup>6</sup> Likewise, the audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee. The written documentation establishing the audit committee should prescribe the scope of the committee's responsibilities, as well as its structure, processes, and membership requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy;<sup>7</sup>

# Audit Committees (3/6)

- Ideally, all members of the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing.<sup>8</sup> The audit committee also should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions;<sup>9</sup>
- All members of the audit committee should be members of the governing body. To ensure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee;

# Audit Committees (4/6)

- An audit committee should have sufficient members for meaningful discussion and deliberation, but not so many as to impede its efficient operation. As a general rule, the minimum membership of the committee should be no fewer than three;<sup>10</sup>
- Members of the audit committee should be educated regarding both the role of the audit committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism;
- It is the responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors;<sup>11</sup>
- The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans;



# Audit Committees (5/6)

- The audit committee should present annually to the full governing body a written report of how it has discharged its duties and met its responsibilities. It is further recommended that this report be made public and be accompanied by the audit committee's charter or other establishing documentation;
- The audit committee should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government of concerns regarding questionable accounting or auditing matters.<sup>12</sup> The audit committee also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls<sup>13</sup>;
- The audit committee should be adequately funded and should be authorized to engage the services of financial experts, legal counsel, and other appropriate specialists, as necessary to fulfill its responsibilities<sup>14</sup>; and



# Audit Committees (6/6)

- In its report to the governing body, the audit committee should specifically state that it has discussed the financial statements with management, with the independent auditors in private,<sup>15</sup> and privately among committee members,<sup>16</sup> and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations.

15. It is important that the audit committee be able to meet privately with the independent auditors, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such encounters in these limited circumstances.

**Board approval date:** Friday, October 17, 2008



# Audit Procurement (1/2)

- ❑ Scope of audit:
  - Basic financial statements
  - Combining and individual fund and component unit statements
- ❑ Audit standards:
  - In accordance with Government Audit Standards (“Yellow Book” or “GAGAS”)
- ❑ Term:
  - At least five years

# Audit Procurement (2/2)

## Procurement:

- Full-scale competitive procurement
  - Seek active participation of all qualified firms
  - Rotation of firms or senior engagement staff
- Principal factor in selection should be audit quality
  - Not solely determined by price

## Oversight:

- Preapproval of all non-attest services by audit committee or equivalent

# Internal Audit Function (1/2)

The term "internal auditor" is commonly used in a variety of ways in the public sector. For example, some individuals with the title "internal auditor" are actually elected officials who, for all practical purposes, function as independent auditors. Conversely, many individuals in the public sector perform one or more of the duties of an internal auditor, although they may use some other job title. For purposes of this recommended practice, an "internal auditor" is considered to be any audit professional who works directly for management, at some level, and whose primary responsibility is helping management to fulfill its oversight and internal control duties as effectively and efficiently as possible.

Internal auditors can be of great value to state and local governments in a variety of ways. In particular, they commonly assist management in monitoring the design and proper functioning of internal control policies and procedures. In this capacity, internal auditors themselves function as an additional level of control and so help to improve the government's overall control environment. Internal auditors also can play a valuable role conducting performance audits, as well as special investigations and studies.

# Internal Audit Function (2/2)

- ☐ Establish formally, by charter, enabling legislation or similar:
  - Scope of work
  - Reporting structure (e.g., top management, audit committee, or governing board)
- ☐ Audit in accordance with GAGAS
- ☐ Minimum qualifications for head of function
  - College degree and appropriate relevant experience
- ☐ All reports and annual audit plan available to audit committee or equivalent

# Multiple (Independent) Auditors

- ❑ Determine whether government is part of a group audit
  - A portion of the government's financial report is audited by other auditors
- ❑ If so, ensure early and ongoing communication between group and component auditors
  - Meetings of all entities and auditors
  - Documentation of responsibilities of all parties, including
    - Timeline
    - Access to work papers
    - Status reporting
    - Subsequent events considerations

# ADVISORY:

## Offering Statements and the Independent Auditor's Role (1/2)

### ADVISORIES



## Offering Statements and the Independent Auditor's Role

The government should feel free to use audited financial statements as appropriate, should not permit auditors to create an artificial "involvement", take steps to avoid unwarranted delays and costs, and clarify publishing permission within audit contract



*GFOA Advisories identify specific policies and procedures necessary to minimize a government's exposure to potential loss in connection with its financial management activities. It is not to be interpreted as GFOA sanctioning the underlying activity that gives rise to the exposure.*

# Offering Statements and the Independent Auditor's Role (2/2)

## □ Governments

- Have the right to use their audited financial statements as appropriate, including in Official Statements (OS) for bond offerings
- Should not agree to contract terms that require auditor involvement
  - Will need to disclose in OS that auditor was not involved

## □ When auditor will be involved with offering, reach clear understanding of

- Maximum time for auditor to read unaudited materials
- Additional fee, if any, to be charged by auditor



# Accounting & Financial Reporting

# **ACCOUNTING**



# Subcategory: Accounting (1/2)

## Best Practices

- Meeting and Exceeding Minimum GAAP Financial Reporting Requirements
- Policies and Procedures Documentation
- Grants Related:
  - Establishing an Effective Grants Policy
  - Grants Administration
- Disaster Recovery:
  - Disaster Recovery Cost Documentation
  - Disaster Recovery for Technology

# Subcategory: Accounting (2/2)

## □ Best Practices (cont.)

- Capital Asset Related:
  - [Capitalization Thresholds for Capital Assets](#)
  - [Control Over Items That Are Not Capitalized](#)
  - [Inventories of Tangible Capital Assets](#)
- Cost Accounting Related:
  - [Measuring the Full Cost of Government Services](#)
  - [Indirect Cost Allocation](#)
  - [Municipal Solid Waste Management and Full-Cost Accounting](#)

# Meeting and Exceeding Minimum GAAP Financial Reporting Requirements (1/2)

- Recommends that governments meet financial reporting responsibilities by
  1. Maintaining an accounting system adequate to provide all of the data needed to allow for the timely preparation of financial statements for the entire financial reporting entity, in conformity with GAAP;
  2. Hiring, training, developing, and retaining accounting staff with the knowledge and capability to produce GAAP financial statements and other related financial management documents;

# Meeting and Exceeding Minimum GAAP Financial Reporting Requirements (2/2)

- ❑ Recommends that governments meet financial reporting responsibilities by (cont.)
  3. Issuing timely financial statements for the entire financial reporting entity in conformity with GAAP, as part of an annual comprehensive financial report;
  4. Having those financial statements independently audited in accordance with GAGAS; and
  5. Utilizing GFOA's Certificate of Achievement for Excellence in Financial Reporting award criteria report checklists as a tool to ensure consideration of required and recommended elements of the annual comprehensive financial report.

# Policies and Procedures Documentation

- Recommends that governments should document financial and accounting policies in a searchable, electronic format available on an employee portal or intranet
  - Management should openly promote and emphasize importance
  - Should be evaluated annually and updated at least every three years, along with related internal control documentation
  - Posted version of procedures should indicate when last updated, list key control activities and describe which employees (name and title) are assigned to perform them, and be highly detailed and explain the purpose of procedures
  - Audit committee or governing body should oversee

# Establishing an Effective Grants Policy

- Recommends governments' grant policies include
  1. Grant identification and application  
(Require agencies seek approval from central authority such as finance department that will consider effects on budget, cash flow, procurement, financial reporting and compliance requirements)
  2. Strategic alignment of grant with government's strategic priorities
  3. Multi-year cost/benefit funding analysis
  4. Grant continuation process  
(Similar to initial grant application approval)
  5. Identification and monitoring of grant terms and conditions  
(Project plan, responsible parties and necessary resources, training, grant-funded personal termination costs at end of grant, system requirements)

# Grants Administration (1/4)

- ❑ Warns of consequences of improper grant administration
- ❑ Recommends governments
  - Adopt grants application and acceptance policies to minimize risks and fully consider costs and benefits of individual grants
  - Promote awareness of the significance of grant requirements
- ❑ Provides specific recommendations on post-acceptance grant administration including:
  1. Ensuring efficient administration and operation of grants  
(Establishing project plans, timelines, and responsible parties; providing training for all involved parties, determining eligibility of and timekeeping for personnel costs; monitoring of changes in terms and conditions)



# Grants Administration (2/4)

- ❑ Provides specific recommendations on post-acceptance grant administration including (cont.):
  2. Ensuring efficient financial management of grants and proper integration into government's financial planning  
(Developing cash management and drawdown procedures; maintaining process to determine/ensure that costs charged to grant are allowable, necessary and reasonable, properly allocated; maintaining appropriate allocation process for indirect costs, if charged to grant; tracking matching funds and sources thereof; integrating grants into annual budget and cash flow planning; developing contingency planning for funding services if grant funding is discontinued, if appropriate)

# Grants Administration (3/4)

- ❑ Provides specific recommendations on post-acceptance grant administration including (cont.):
  3. Maintaining proper information systems  
(Collecting and providing information and documentation needed by all parties to prepare GAAP financial statements and required grant reports; identifying and segregating allowable/unallowable, direct/indirect, and administrative costs; tracking capital assets; tracking non-cash grants)
  4. Developing and maintaining proper internal control  
(Considering risk levels; identifying and adhere to grant compliance requirements such as for procurement; establishing procedures to maintain controls over accounting, financial reporting and program administration, including over reliability of third-party information; documenting grant procedures)

# Grants Administration (4/4)

- ❑ Provides specific recommendations on post-acceptance grant administration including (cont.):
  - 5. Subrecipient monitoring
  - 6. Continuous communication
  - 7. Compliance with specialized reporting requirements
  - 8. Compliance with audit requirements

# Disaster Recovery Cost Documentation (1/2)

- ❑ Governments must collect and maintain adequate documentation on reimbursable costs to take full advantage of emergency assistance and insurance coverage
- ❑ Provides specific recommendation to establish formal written policies and procedures (P&Ps)

(Include P&Ps in disaster recovery plan; train staff and brief newly elected officials, including on FEMA requirements; review and test P&Ps annually and review after events; stock emergency supplies and have emergency supply and service contracts; consider provisions for disaster pay for employees; seek prompt audits by grantors)

# Disaster Recovery Cost Documentation (2/2)

- ❑ Provides specific recommendation to ensure adequate support for claims

(Use of supplemental accounts for disaster-related costs; use of grantor classifications; track costs at least down to a project worksheet level of detail; train staff on level of detail and records retention necessary for claims support; collecting and maintaining nonfinancial support, such as before and after photographs of repairs, correspondence and press releases/clippings, and insurance policies; tracking of volunteer hours, donated items and values; tracking of equipment usage hours, operators and purpose of use)

# Disaster Recovery for Technology (1/3)

- ❑ Recommends governments formally establish written policies and procedures minimizing disruptions from failures or inaccessibility of computers and other technology following a disaster, including specific measures
  - Assigning disaster recovery coordinators for each department reporting to a single disaster recovery manager
  - Establishing communication procedures and maintaining regularly updated contact listing of this team, key vendors and other key contacts

# Disaster Recovery for Technology (2/3)

- ❑ Specific recommendations for written policies and procedures (cont.)
  - Creating and regularly updating of off-site back-ups of system applications and data; and ensuring security (encryption) during transmission and storage
  - Establishing procedures for use in the immediate aftermath of a disaster, including for disaster/emergency declarations, media communications, and damage assessment

# Disaster Recovery for Technology (3/3)

- ❑ Specific recommendations for written policies and procedures (cont.)
  - Making advance arrangements for alternate processing site(s) that can meet government needs, including capability of providing information in the format(s) required by grantors (like FEMA), and establish priorities for their use
  - Assuring adequacy of controls and disaster recovery provisions of contractors
- ❑ Consider cybersecurity insurance



# Capitalization Thresholds for Capital Assets (1/2)

- ❑ Discusses cost/benefits of capitalization and application of materiality principle in determining capitalization thresholds
  - Should not be only factor in deciding capitalization
  - Need not be calculated in same way asset value is measured

# Capitalization Thresholds for Capital Assets (2/2)

## □ Recommendations

- Establish minimum cost (no smaller than \$5,000) and useful-life thresholds (no less than two years), considering grant requirements, and periodically review
- Consider different \$ thresholds for different asset classifications
- Apply threshold to individual items except in cases when this would result in exclusion of significant portion of assets
- Exercise control over items below the threshold that require special attention

# Control Over Items That Are Not Capitalized (1/2)

- Due to use of capitalization thresholds, certain assets that are not capitalized nonetheless require special attention to ensure proper internal control
  - To ensure legal compliance (grant funded)
  - To protect public safety and limit potential liability (police weapons)
  - To protect against high risk of theft (portable electronics)

# Control Over Items That Are Not Capitalized (2/2)

- Recommendations for control
  - Responsibility should be at departmental level, assigned to specific individuals
  - Maintenance of complete listing of such items within the department
  - Annual certification of existence of updated listings to central accounting or finance function by departments
  - Verification procedures performed by central accounting function at least once every five years

# Inventories of Tangible Capital Assets

- ☐ Perpetual inventory systems require periodic verification
- ☐ Governments should follow Uniform Guidance and other grantor guidelines for inventorying assets purchased with grant funds

# Measuring the Full Cost of Government Service (Service Provision Decisions)

- ❑ Governments should calculate the full cost of the different services they provide
- ❑ Full cost information should be used to provide unbiased evaluation of service delivery options and service levels
- ❑ Broad range of considerations are necessary  
(transparency, strategic planning, stakeholder input, labor considerations, cost vs. service quality, cost of assets, present value analysis, specialized knowledge)
- ❑ Outsourcing considerations  
(management capacity, competitive forces, flexibility of arrangements, transition planning and communication, monitoring)

# Indirect Cost Allocation

- ❑ Indirect cost allocations are used to measure the cost of government services, establish fees and charges, bill for grant reimbursements, etc.
- ❑ Considerations for preparing an indirect cost allocation should include:
  - Use of an indirect cost allocation plan or an overhead percentage (10% De Minimis)
  - Internal vs. external party preparation (internal capacity, credibility)
  - Frequency of calculation

# Municipal Solid Waste Management and Full Cost Accounting

- Recommends application of full cost accounting (FCA) to municipal solid waste management activities (MSW)
  - Proprietary funds are well suited to FCA and recommended for governments directly involved with MSW disposal
  - Gather full accrual accounting information needed for FCA for MSW, even if accounted for in governmental funds
  - Compile cost information both for disposal “activities” (collection, transfer, MSW facilities) and for disposal “paths” (recycling, composting, waste-to-energy, landfilling) using documented and justifiable cost allocation
  - Consider fixed vs. variable costs, set rates to cover cash-flow needs



# Accounting & Financial Reporting

# **INTERNAL CONTROL**



# Subcategory: Internal Control

## Best Practices

- [Internal Control Framework](#)
- [Internal Control Environment](#)
- [Internal Control And Management Involvement](#)
- [Internal Control For Grants](#)
- [Internal Control Deficiencies In Audits](#)
- [Whistleblowing](#)

# Internal Control Framework

- ❑ Encourages governments to adopt *COSO's Internal Control – Integrated Framework* (2013) as the conceptual basis for designing, implementing, operating, and evaluating internal control to provide reasonable assurance of achieving operational, reporting and compliance objectives
- ❑ Recommends establishing a comprehensive framework including all five essential components, complementing each other and operating together effectively, consistent with all relevant principles

[GAO [Standards for Internal Control in the Federal Government](#)]

# Internal Control Environment

- ❑ The governing body, upper level management, and all levels of staff should demonstrate commitment to internal control
- ❑ The governing body should obtain training and, if needed, independent expert advice to enable it to actively oversee development of, and monitor performance of, comprehensive framework of internal control
- ❑ Management should
  - Develop organizational structures and ensure accountability
  - Attract, develop and retain competent employees
  - Hold individuals accountable

# Internal Control and Management Involvement

- ❑ GFOA's [Code of Ethics](#) requires finance officers, as part of their responsibility as public officials, to exercise prudence and integrity in the management of funds in their custody and in all financial transactions
- ❑ Recommends managers obtain information and training needed to meaningfully take responsibility for internal control; in particular by obtaining a sound understanding of the essential components of a comprehensive framework of internal control

# Internal Control for Grants

- ❑ Proper framework for internal control needed to ensure:
  - Grant funds utilized effectively and efficiently, and in compliance with applicable laws, regulations, terms and conditions, etc.
  - Assets purchased/constructed/developed with grant funds are safeguarded properly
  - Financial reports required by grants are accurate and timely
- ❑ Discusses essential components of COSO's comprehensive framework

# Internal Control Deficiencies in Audits (1/2)

- ❑ Auditors are required to report material weaknesses or significant deficiencies identified in conjunction with financial statement audits
- ❑ Auditors' preparation of financial statements will constitute a significant deficiency or material weakness if management does not have the skills to prepare them (v. as a matter of convenience)
- ❑ Recommends that governments
  - Be prepared to provide evidence that the government has a sound financial reporting system
  - Oversee work of auditors preparing financial statements, and document

# Internal Control Deficiencies in Audits (2/2)

- ❑ Recommends that governments (cont.)
  - Minimize the likelihood of material audit adjustments
  - Pay special attention to effective implementation of new accounting standards and provide on-going staff training
  - If costs of remedying a control deficiency is deemed greater than benefits:
    - Alert governing body
    - For federal grants, consider seeking a waiver from grantor agency to protect low-risk auditee status



# Whistleblowing (1/2)

- ❑ Governments should establish policies and procedures to encourage and facilitate the reporting of fraud, waste, abuse or questionable accounting or auditing practices
- ❑ Recommends governments
  - Formally approve and widely distribute and publicize an ethics policy
  - Establish mechanisms (hot line) to permit confidential, anonymous reporting of concerns of fraud, waste, abuse, etc.; and publicize

# Whistleblowing (2/2)

- Recommends governments (cont.)
  - Consider using an outside vendor
  - Train those employees answering calls to recognize and appropriately handle calls reporting such concerns
  - Make internal auditors or equivalent responsible for investigating and disposing of reports
  - Audit committee should receive and examine reports on complaints received and how disposed of

Accounting & Financial Reporting

# **FINANCIAL REPORTING**



# Subcategory: Financial Reporting (1/3)

## Best Practices

- Meeting and Exceeding Minimum GAAP Financial Reporting Requirements (Repeat)
- Timely Financial Reporting
- Fund Accounting Applications
- Budgetary Comparisons as Part of the Basic Financial Statements
- Tax Abatement Transparency
- Nonauthoritative Considerations in the Preparation of an Annual Comprehensive Financial Report

# Subcategory: Financial Reporting (2/3)

## □ Best Practices (cont.)

- [Website Posting of Financial Documents](#)
- Departmental Reports
  - [Departmental Reports and Management's Discussion and Analysis](#)
  - [Departmental Reports and Supplementary Information](#)
- Non-GAAP Reporting
  - [Popular Reporting of Financial Information](#)
  - [Periodic Disclosure and the Annual Comprehensive Financial Report](#)

# Subcategory: Financial Reporting (3/3)

## Advisories

- Special Revenue Funds Used in Budgeting but Not Financial Reporting
- Securities Lending Transactions in Financial Statements
- Accounting and Financial Reporting for Fiduciary Activities
- Accounting for Leases

# Timely Financial Reporting (1/2)

- ❑ Financial reports should be published as soon as possible after the end of the reporting period, which requires year-long work
  - Minor gains in precision are not worth delaying publication
- ❑ Recommendations
  - Record activity throughout the year
    - Use checklists and log and store completed work to facilitate orderly review and availability for auditors
    - Include timeframes in accounting policies and procedures

# Timely Financial Reporting (2/2)

## ☐ Recommendations (cont.)

- Considerations for closing and financial statement preparation
  - Initial close within a week to ten days after period end
  - On-going communication and set timeframe for component unit reporting
  - Use estimates
- Implementing new accounting standards
  - Monitor GASB and analyze impact as soon as pronouncements are issued
  - Plan to early implement
- Use electronic distribution
- Include deadlines in audit RFPs and all professional services contracts affecting issuance (actuaries, appraisers)



# Fund Accounting Applications

- ❑ The effective use of fund accounting requires that funds be established in a manner suitable for both accounting and financial reporting
- ❑ Recommends governments establish clear criteria for determining which *accounting* funds should be *reporting* funds
  - Too few funds – denies users information on compliance
  - Too many funds – adds length and complexity to financial reports
  - Periodically review fund structure for improvements and opportunities to combine funds with similar purposes that are not individually significant

# Budgetary Comparisons as Part of Basic Financial Statements

- ❑ Adherence to budget is of paramount importance to most of a government's stakeholders
- ❑ Recommends that all state and local governments present mandated budgetary comparisons as part of their audited basic financial statements.

GFR article [Budgetary Accountability: Why, Why, Why?](#)

# Tax Abatement Transparency

- ❑ GAAP require disclosures of the costs (forgone revenues) but not benefits of tax abatement programs
- ❑ The letter of transmittal in the introductory section of an ACFR is the only place in the report where governments are permitted to include “subjective” analysis and projections
- ❑ Recommends governments include information about tax abatement programs in their letters of transmittal
  - Describe policies on tax abatements, including expectations of return on investment and how returns are determined
  - Explain how abatements are accounted and budgeted for, and where a complete cost/benefit analysis can be accessed

# Nonauthoritative Considerations in the Preparation of an ACFR

- ❑ Government Accounting, Auditing and Financial Reporting (a.k.a., “The Blue Book”) provides a great deal of suggested guidance on the preparation of an ACFR, much of which is incorporated into the requirements of the Certificate of Achievement for Excellence in Financial Reporting award program
  - **GFOA believes these are best practices for all governments**
- ❑ Recommends governments consider following the nonauthoritative suggestions contained in the [Certificate of Achievement for Excellence in Financial Reporting Program Requirements – Non-GAAP Items](#) list when preparing any ACFR

# Website Posting of Financial Documents

- ❑ Governments should demonstrate accountability and transparency by making financial information of the highest quality readily accessible to citizens and other interested parties
- ❑ Expounds upon benefits of using websites to disseminate financial reports  
(wider accessibility, lower costs, sustainability, increased potential for interaction with users, ability to link to other information, ability to post reports in multiple languages)
- ❑ Warns that website posting does not fulfill SEC continuing disclosure responsibilities of issuers of municipal bonds

# Departmental Reports and Management's Discussion and Analysis

70

- Recommends that MD&A and other required supplementary information (RSI) be presented in conjunction with departmental reports
  - Notes that AICPA Audit and Accounting Guide cites a “long established practice dictating that [department, agency or program] presentations should apply all relevant GAAP”



# Popular Reporting of Financial Information (1/2)

- Recommends that in addition to ACFRs, governments issue simpler popular reports designed for those who need or want a less-detailed overview of the government's financial activities
  - Data in popular report should be extracted from the ACFR, which should be referenced
  - Scope of report should be clearly indicated
  - Popular reports should
    - Be made available to the community, including by being posted on the government's website
    - Establish credibility by presenting information in a balanced and objective manner

# Popular Reporting of Financial Information (2/2)

- Popular reports should (cont.)
  - Be short, easily understood, and in an attractive and easy-to-follow format
  - Include photos, charts, or other graphics
  - Be written concisely and avoid technical jargon
  - Clearly highlight and explain items of particular importance
  - Use comparative data to help identify trends useful in interpreting data
  - Demonstrate creativity
  - Encourage users to provide feedback



# Periodic Disclosure and the Annual Comprehensive Financial Report

73

- ❑ SEC rules require that issuers of municipal securities contractually be obligated to provide certain annual financial information to various information repositories
- ❑ GFOA believes that the annual comprehensive financial report should be the normal means for a government to meet its annual financial reporting responsibilities



# ADVISORY: Special Revenue Funds Used in Budgeting but Not Financial Reporting

74

- ❑ Governments are sometimes subject to legal requirements to account for resources in “special revenue funds”
- ❑ GAAP limit the use of special revenue funds to specific circumstances
- ❑ GFOA recommends governments
  - Maintain separate information for each legally required “fund” in their accounting systems
  - Provide schedules for each legally required “fund” in the financial subsection (supplementary information) of their ACFRs
    - Accompany those schedules with the explanation that those “funds” are included in the general fund in reports prepared in accordance with GAAP



# ADVISORY: Securities Lending Transactions in Financial Statements

- ❑ Cash collateral held in connection with securities lending transactions should be reported separately from other cash and short-term investments
- ❑ Securities lending income and related expenses should be reported together rather than divided between investment income and investment expense
  - Pension plans should report income and expenses related to securities lending activities as a separate component of total net investment income, immediately following net income for all other investment activities on statement of changes in plan net position

# ADVISORIES: Accounting for Leases and Accounting and Financial Reporting for Fiduciary Activities

- ❑ Recommendations to promptly begin preparations to implement new GASB standards on fiduciary activities and leases
- ❑ Specific recommendations on how to do so

# **BEST PRACTICES AND ADVISORIES ON NON-AAFR TOPICS**



# Budget

- ☐ Budget polices (6)
- ☐ Planning (3)
- ☐ Revenue (3)
- ☐ Budget analysis (4)
- ☐ Budget techniques (5)
- ☐ Budget monitoring (2)
- ☐ Communications (6)

# Capital Planning and Infrastructure

- ☐ Asset/infrastructure management (3)
- ☐ Capital planning (8)
- ☐ Economic development incentives (8)

# Debt Management

- ☐ Use of advisors (5)
- ☐ Techniques (2)
  - Advisories (4)
- ☐ Debt issuance (7)
  - Advisory (1)
- ☐ Disclosure (8)
- ☐ Management/post-issue compliance (6)



# Economic Development

- ☐ Polices (4)
- ☐ Projects/Agreements (4)
  - Advisory (1)

# Pension and Benefit Administration

- ☐ Policy, governance, and management (9)
- ☐ Defined benefit plans (9)
  - Advisories (2)
- ☐ Defined contribution plans (6)
  - Advisory (1)
- ☐ OPEB (5)
  - Advisory (1)
- ☐ Healthcare (4)
- ☐ Pension investments (4)
  - Advisory (1)
- ☐ Actuarial services (2)
- ☐ Pension reporting (1)

# Treasury and Investment Management

- ❑ Investing (14)
  - Advisories (4)
- ❑ Treasury operations (3)
- ❑ Banking and merchant services (8)
- ❑ Cash management (5)
  - Advisory (1)

# Others

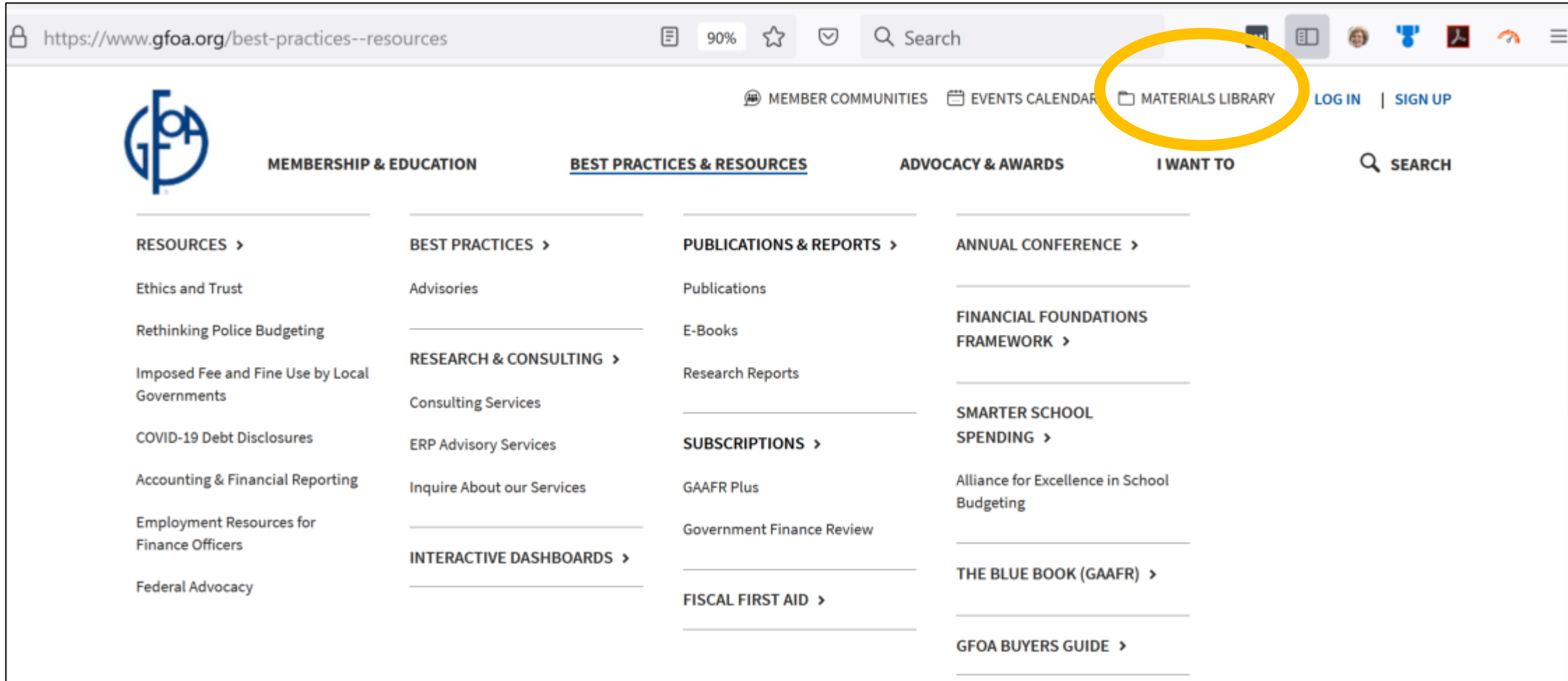
- ☐ Procurement (6)
- ☐ Risk assessment (3)
- ☐ Financial polices (Repeated from other topics)
- ☐ Role of the finance officer (4)

# MATERIALS LIBRARY



# Where

## GFOA.org → Materials Library



The screenshot shows the GFOA.org website with the URL <https://www.gfoa.org/best-practices--resources> in the browser address bar. The top navigation bar includes links for MEMBER COMMUNITIES, EVENTS CALENDAR, and MATERIALS LIBRARY, which is highlighted with a yellow circle. Below the navigation bar, the website is organized into four main columns: MEMBERSHIP & EDUCATION, BEST PRACTICES & RESOURCES, ADVOCACY & AWARDS, and I WANT TO. Each column contains a list of links to various resources.

MEMBERSHIP & EDUCATION	BEST PRACTICES & RESOURCES	ADVOCACY & AWARDS	I WANT TO
<a href="#">RESOURCES &gt;</a>	<a href="#">BEST PRACTICES &gt;</a>	<a href="#">PUBLICATIONS &amp; REPORTS &gt;</a>	<a href="#">ANNUAL CONFERENCE &gt;</a>
<a href="#">Ethics and Trust</a>	<a href="#">Advisories</a>	<a href="#">Publications</a>	<a href="#">FINANCIAL FOUNDATIONS FRAMEWORK &gt;</a>
<a href="#">Rethinking Police Budgeting</a>	<a href="#">RESEARCH &amp; CONSULTING &gt;</a>	<a href="#">E-Books</a>	<a href="#">SMARTER SCHOOL SPENDING &gt;</a>
<a href="#">Imposed Fee and Fine Use by Local Governments</a>	<a href="#">Consulting Services</a>	<a href="#">Research Reports</a>	<a href="#">Alliance for Excellence in School Budgeting</a>
<a href="#">COVID-19 Debt Disclosures</a>	<a href="#">ERP Advisory Services</a>	<a href="#">SUBSCRIPTIONS &gt;</a>	<a href="#">THE BLUE BOOK (GAAFR) &gt;</a>
<a href="#">Accounting &amp; Financial Reporting</a>	<a href="#">Inquire About our Services</a>	<a href="#">GAAFR Plus</a>	<a href="#">GFOA BUYERS GUIDE &gt;</a>
<a href="#">Employment Resources for Finance Officers</a>	<a href="#">INTERACTIVE DASHBOARDS &gt;</a>	<a href="#">Government Finance Review</a>	
<a href="#">Federal Advocacy</a>		<a href="#">FISCAL FIRST AID &gt;</a>	

# Browse by Topic



# Filter & Sort by...

## Content type

- ☒ All (113)
- ☒ Advisories (5)
- ☒ Best Practices (41)
- ☒ E-Books (4)
- ☒ GFR Articles (35)
- ☒ Issue Briefs (2)
- ☒ News Releases (1)
- ☒ Podcasts (1)
- ☐ Policy Positions (9)
- ☒ Publications (4)
- ☒ Publication Sets (2)
- ☒ Tool/Templates (6)

## Content access

- ☒ Free (76)
- ☒ Paid (9)
- ☒ Members Only (28)

## Browse by topic

All Topics



Sort by: Date | Title



# For More Information...

Government  
Finance Officers  
Association

Technical  
Services Center

312.977.9700

GFOA.org



Government Finance  
Officers Association

203 N. LaSalle Street  
Suite 2700  
Chicago, IL 60601-1210

Follow us

