



Municipal Technical Advisory Service

UT INSTITUTE FOR PUBLIC SERVICE



A Dive Into the Audit Process from Year-End Close to Selecting an Audit Firm

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Three BIG Tasks We Must Accomplish Every Year

- Budget
- Year-End Close
- Audit

Closing the Fiscal Year

The closing provides the basis for which all general ledger accounts will be audited, and accurate financial reporting provides the basis for information needed for both internal and external decision making and an objective assessment of financial stewardship. Additionally, auditors rely on accurate and timely financial statements and supporting documentation to perform their work.



Auditor On-Site Visit

When auditors arrive to perform their work, they have certain expectations upon arrival - thus, the basis for this class. Auditors expect to find a closed set of books where individual accounts are accurate and transactions have been recorded properly throughout the fiscal year.

Trial Balance - All accounts listed in order by account number

Balance Sheet - Assets, Deferred Outflows, Liabilities, Deferred Inflows, Fund Balances

Statement of Revenues, Expenditures and Changes in Fund Balance

Trial Balance Assets

Fund: 110 General Fund

AccountNumber	Account Description	Beginning Balance	Debits	Credits	Ending Balance
110-11211- - -	Cash In Bank Account No.-1 -Checking	340,189.41	5,303,678.23	5,757,584.65	(113,717.01)
110-11250- - -	State Investment Pool	40.94	0.00	0.00	40.94
110-11920- - -	Property Tax Vouchers On Hand	(3,181.00)	4,743.00	5,143.00	(3,581.00)
110-13294- - -	Golf Membership Receivable Employees	(1,260.45)	4.17	703.14	(1,959.42)
Total		335,788.90	5,308,425.40	5,763,430.79	(119,216.49)

Account	Description	Type	Unadjusted 06/30/2023	Adjusting JE 06/30/2023	Adjusted 06/30/2023
110-101	Petty Cash	A	50.00	0.00	50.00
110-101-0100	Cash Drawer - City Rec	A	60.00	0.00	60.00
110-101-0200	Cash Drawer - Clerk	A	60.00	0.00	60.00
110-102-0200	Citizen Tri County Checking	A	1,266,952.08	0.00	1,266,952.08
110-103	Saving Account	A	90,268.16	0.00	90,268.16
110-104-0000	SEIZED FUNDS CTCB	A	309.00	0.00	309.00
110-107	Volunteer Fire Department	A	18,032.90	0.00	18,032.90
110-109	Library	A	1,885.81	0.00	1,885.81

Cash on Hand (Petty Cash) Cash in Banks LGIP

Source document to 'prove' your balances

- Cash on Hand – physical count at year end (rarely changes)
- Cash in Banks – an accurate, up-to-date bank reconciliation for EVERY bank account
- LGIP – June 30, 20xx statement

Bank Reconciliation

- 1) You **MUST** keep these up to date! Do them monthly.
- 2) If you just can't reconcile them correctly get some help!
- 3) It is **VERY** difficult to reconcile multiple months at a time - stay current.
- 4) Don't dig a hole you can't get out of!



Inventory

In governmental accounting, is recorded at cost and one of two methods is used to account for it.

If using the purchases method, make an adjusting entry at year-end to adjust to the amount on hand at June 30 (with a corresponding nonspendable fund balance).

If using the consumption method, inventory is recorded at the time of purchase and updated as items are used. The only adjustment at June 30 is to the physical count taken.

Finance personnel should keep adequate records of all inventory purchased and used so that auditors can easily see the flow of materials.

Receivables

		Beginning Balance	Dr	Cr	Ending Balance
110-11920-	Property Tax Vouchers	0.00	1,438.00	1,438.00	0.00
110-13100-	Property Taxes Receivable	265,198.00	20,014.66	10,616.76	274,595.90
110-13110-	Taxes Receivable - Current	52,044.21	4,012.48	2,153.44	53,903.25
110-13112-	Grants Receivable	30,587.00	30,587.00	61,174.00	0.00
110-13119-	Est. Uncoll. Current Tax (Cr)	(5,000.00)	0.00	0.00	(5,000.00)
110-13600-	Due From Water and Sewer for Payroll	100,845.74	323,712.73	377,724.05	46,834.42
110-13613-	Due From Special Revenue Fund 2	0.00	8,587.06	0.00	8,587.06
110-13614-	Due from Water & Sewer for Fuelman Pmts	2,231.73	14,056.26	14,056.26	2,231.73
110-13647-	Due From Sanitation for Payroll	9,403.19	108,226.31	117,162.46	467.04
110-13700-	Due From Other Governments	22,696.89	1,930.46	0.00	24,627.35
110-15100-	Prepaid Expenses	5,039.35	181.98	0.00	5,221.33

Receivables

Property Taxes

- Current (will collect 10/1)
- Delinquent (ten years)
- Ad Valorem (public utility)

Personal Property Assessment and Public Utilities	94,033,411
Equalization ratio	94.2100%
Adjusted Personal Property Assessment and Public Utilities	88,588,877
Real Property Assessment	249,283,547
TOTAL	337,872,424
City Tax Rate	\$1.4512
Estimate of Current Property Taxes Due	4,903,205
Allowance for Uncollectible Taxes	75,000
Deferred Current Property Taxes	4,828,205

Accounts Receivables

Receivables should be recorded as soon as a legally enforceable claim is established.

- When was revenue earned, measurable and will it be collected within the period of availability?
 - Grants
 - State-shared revenues
 - Due from other funds
 - ???

Period of Availability

Revenues – Exchange and Nonexchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Town, available means expected to be received within sixty days of fiscal year-end.

Payables

Accounts Payable - are reported as liabilities as soon as they are incurred, with the assumption they will be liquidated with current financial resources. Any items purchased and received, or expenditures/expenses incurred by June 30 should be recorded as payables so as to place them in the proper year. Payables come in many forms, including supplies, payroll taxes, services, etc.

Every invoice paid after June 30 until you close the year should be checked to verify in which fiscal year it has been recorded as an expenditure.

Payables

		Beginning Balance	Dr	Cr	Ending Balance
110-21120-	Accounts Payable	(3,999.92)	3,999.92	7,408.92	(7,408.92)
110-21211-	Social Security Taxes Payable	0.00	84,550.61	84,550.61	0.00
110-21212-	Withholding Taxes Payable	0.00	49,504.28	49,504.28	0.00
110-21214-	Medicare Taxes Payable	0.00	21,176.82	21,176.82	0.00
110-21220-	DPC	0.00	9,060.00	9,060.00	0.00
110-21222-	Ameritas Dental and Vision	(172.20)	3,158.61	2,986.41	0.00
110-21224-	LICOA- Cancer, Dis. & Acc. Death	(624.38)	8,970.49	7,696.23	649.88
110-21225-	LICOA Life Ins	213.29	2,832.95	2,085.25	960.99
110-21226-	Aflac	(56.16)	88.84	32.68	0.00
110-21241-	TCRS - Concord	(2,799.11)	36,554.98	37,143.31	(3,387.44)
110-21270-	Child Support	(673.00)	12,734.34	12,707.34	(646.00)
110-21290-	MyFY Employee Payable	0.60	385.98	386.58	0.00
110-21330-	Empower Retirement	0.00	9,193.31	9,193.31	0.00
110-21419-	Due To Sanitation Fund	0.00	2,011.96	2,011.96	0.00
110-21520-	Due To State Of Tennessee	(372.28)	2,524.22	2,311.66	(159.72)
110-21850-	Accrued Leave	(4,739.18)	0.00	0.00	(4,739.18)
110-21910-	Customer Deposits	(100.00)	0.00	0.00	(100.00)
110-22120-	Deferred Property Tax Revenue	(260,198.00)	10,616.76	20,014.66	(269,595.90)

Accrued Payroll

	6/22/2024	Add'l work	INCLUDING	Accrued	
<u>Department</u>	<u>PAYROLL</u>	<u>thru 6/30/24</u>	<u>FICA</u>	<u>6/30/2024</u>	<u>Difference</u>
City Manager	3,795.13	2,277.08	2,451.27	1,935.52	515.76
Finance	5,598.77	3,359.26	3,616.25	2,855.37	760.87
Human Resources	3,129.13	1,877.48	2,021.11	1,595.86	425.25
Police	33,945.30	20,367.18	21,925.27	17,312.10	4,613.17
Fire	26,310.54	15,786.32	16,993.98	13,418.38	3,575.60
Parks/Recreation	9,787.84	5,872.70	6,321.97	4,991.80	1,330.17
Public Works	28,081.29	16,848.77	18,137.71	14,321.46	3,816.25
TOTAL	110,648.00	66,388.80	71,467.54	56,430.48	15,037.06
			6/30/24	6/30/23	adjusting
			accrual	accrual	entry
Accrual is determined by dividing number of work days by number of days					
between last paid payroll and June 30. For example, the last payroll					
(column 2 is divided by 10 for a per day amount then multiplied by 6).					

Police and Fire may be different - the key is to determine what was *earned* by June 30 but not *paid* until after June 30

- **Payroll Taxes**
- **Health insurance**
- **Life insurance**
- **Disability insurance**
- **Cancer insurance**
- **Dental insurance**
- **Vision insurance**
- **Contributions such as United Way**
- **Garnishments**
- **Retirement, such as 403b plans or TCRS**

Other Payroll-Related Liabilities

Capital Assets

Although capital assets are not recorded as assets in governmental funds, they are recorded as expenditures.

A careful and complete accounting of all capital assets, or fixed assets, must be kept to accurately report them on the government-wide statements.

Along with compiling a running record of capital assets, new assets purchased in the fiscal reporting year must be added.

Capital Assets

Any assets disposed of either through sale, trade, scrap or other disposition must be removed.

Additionally, depreciation expense and accumulated depreciation must be properly calculated.

This can be a complex process that requires a great deal of attention. Throughout the fiscal year, it would be prudent to 'flag' or make note of any items purchased that should be shown as capital assets.

Capital Assets

413-000	Construction in Progress Sewer Project	A	116,128.64	0.00	116,128.64
413-101	Plant & Equipment	A	13,101,035.69	0.00	13,101,035.69
413-102	Allowance for Depreciation	A	(5,930,670.85)	(6,996.88)	(5,937,667.73)
413-103	Sewer Lines	A	2,001,929.72	0.00	2,001,929.72
413-105	Land	A	2,289,389.85	0.00	2,289,389.85
413-105-0500	Radio Read Meters	A	675,218.26	0.00	675,218.26
413-108	Prepaid Expenses	A	17,854.20	0.00	17,854.20
413-11002-0001	Construction in Progress Building	A	219,730.26	0.00	219,730.26

Best Practices for Capital Assets

Record in '900' accounts	900	Capital Outlay
	901	
	910	Land
	920	Buildings
	930	Improvements Other Than Buildings
	931	Roads, Street, and Parking Lots
	937	Parks and Recreation Facilities
	940	Machinery and Equipment
	941	Transportation Equipment
	942	General Purpose Machinery and Equipment
945	Communication Equipment	
947	Office Machinery and Equipment	

Best Practices for Capital Assets

- Keep a copy of every invoice throughout the year that will be or could be a capital asset.
- Use a 'lead-in sheet'.
- Track multiple invoices for construction or other large projects.

CITY OF _____, TENNESSEE											
New Fixed Asset Lead-in Sheet											
ASSET NUMBER _____						DATE ENTERED _____					
LOCATION _____											
ASSET CLASS _____											
ACTIVITY CODE _____						PURCHASE ORDER # _____					
NEW/USED _____						INVOICE NUMBER _____					
PURCHASED FUND _____						CHECK NUMBER _____					
ACCOUNT NUMBER _____						VENDOR NUMBER _____					
DESCRIPTION _____											
SERIAL/MODEL NUMBER _____						CONDITION _____					
VENDOR NAME _____						BRAND NAME _____					
ACQUISITION METHOD _____											
ACQUISITION DATE _____											
PURCHASE COST _____											
LOCATION _____											
LONG DESCRIPTION _____											
DEPARTMENT HEAD SIGNATURE _____						DATE _____					
						DATE _____					
DIRECTOR OF FINANCE _____											

Best Practices for Capital Assets

You should search expenditure accounts for CA, such as office supplies, repairs and maintenance.

CITY OF _____, TENNESSEE

Fixed Asset Deletion Sheet

ASSET NUMBER _____	DATE ENTERED _____
DEPARTMENT _____	SERIAL/MODEL NUMBER _____
ACCOUNT NUMBER _____	VENDOR NAME _____
DESCRIPTION _____	
BRAND NAME _____	
ACQUISITION METHOD _____	METHOD OF SALE _____
ACQUISITION DATE _____	(GovDeals, scrap, etc.)
PURCHASE COST _____	SALES PRICE \$ _____
IS THIS ITEM NOW TAGGED? YES _____ NO _____	
DATE OF DELETION _____	SOLD TO: _____
DATE DECLARED SURPLUS BY CITY COUNCIL _____	
LONG DESCRIPTION _____	

DEPARTMENT HEAD SIGNATURE _____	DATE _____
_____	DATE _____
DIRECTOR OF FINANCE _____	

Fund Balances

Throughout the fiscal year, you should check the balance of all fund balance accounts.

After posting any auditor adjusting entries from the prior year, the balances should agree to what is reported in the prior year audited financial statements (in total).

These will be shown either on the face of the statements and in the Notes to Financial Statements.

If they do not agree you must determine the difference and be able to reconcile it.

Typically entries should not be made to the fund balance accounts other than reclassifications from one category to other (ie,. Committed to Unassigned)

Fund Balance

		Beginning Balance	Dr	Cr	Ending Balance
110-26335-	Assigned for City Stage	(1,705.07)	0.00	0.00	(1,705.07)
110-26336-	Assigned for 19th Amendment	(4,522.52)	0.00	0.00	(4,522.52)
110-26426-	Fire Dept Rep/Main	(4,500.00)	0.00	0.00	(4,500.00)
110-27100-	Fund Balance - Unreserved	(595,687.84)	236,921.60	297,208.22	(655,974.46)



Revenues and Expenditures

- Do revenues have credit balances?
- Do they look ‘reasonable’ compared to the prior audited year?
- Do expenditures have debit balances?
- Do they look reasonable?
- Are capital assets separated in 900 accounts?
- Are payroll taxes close to 7.65% of salaries and wages?
- Do you see anything that makes you think “that doesn’t look right”?
- Pull account analyses when you need to.

Auditor Selection

- Use a Comptroller approved audit firm.
- Select a firm with experience in governmental auditing and a good reputation.
- Review a number of their reports online.
- It's OK to do a request for proposal periodically.
- Cheapest is NOT always best! You may get what you pay for!
- Work WITH your auditors – they are NOT your adversary.

Auditor Selection

- Take their comments to heart and use them to help you improve and make your city better.
- It is helpful, but not essential that your auditor also audit the utility board, schools, etc. that will be in your annual audit report.
- DO everything in your power to make their job as easy as possible.
- Be accessible; be engaging; get what they need when they need it.
- Prepare by keeping your books in good order, and handing them a thoroughly vetted trial balance for which you have documentation for every balance sheet account

MTAS Finance Consultants

Thank you!

It is always
an honor
to be with
you and
TGFOA

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