



How to Prepare Your Fund for the Year-End Audit

Terrie L. Pyeatt, CPA
Director of Office of Internal Audit
Virginia Beach City Public Schools

Objectives

- To strengthen understanding of how to prepare an accurate workpaper package including a review of your fund
- To provide guidance on preparing better analytical comments
- To share some helpful resources, i.e. “cheat sheets”
 - Workpaper Review Checklist
 - Statement of Cash Flows worksheet



Preparation of workpapers

- ALWAYS start with the end in mind
 - Deadlines
 - Financial statements
 - Footnotes
 - Multiple areas/multiple people???
- ALWAYS use prior year financial statement numbers as your starting point
- Make your journal entries EARLY

Communicate, communicate,
communicate



Fund Review

- Pay attention to detail
- Use your resources
 - Checklists
 - P/Y workpapers
 - Accounting software
 - Supporting documentation
- Assume the reviewer knows almost nothing about the fund
- Be aware of how your fund impacts others



Fund Review, continued

Key Items:

- Does Balance Sheet roll to P&L to the Statement of Cash Flows?
- Does equity roll from the prior year?
- Know your policy on pennies!!!
 - This is a killer . . .
- Did you include all analyticals and do they make sense?



Analytical Comments

- “PROVE IT” mentality
 - Prior period adjustments
 - Incorrect financial statements
- Provide supporting documentation with significant variances (*with caveat*)
 - Council or Board minutes
 - Copies of rate increases/decreases
- Don't stop with the first explanation
 - Dig to find the true reason
 - If it seems odd, there could very well be an error



Analytical Comments, continued

- Compare analytical comments to other accounts and/or analytical comments

Example:

If accounts receivable increased substantially, I would expect to see one of several things:

- Increased revenues (verified by % of A/R to revenues)
- Change in collection policy
- Unusual A/R at year-end (verified by cash receipt after June 30)



“Cheat Sheets”

■ Workpaper Review Checklists

- Tailored to each locality or district but can be easily adapted
- Accountant submits a completed checklist when the workpaper package is turned in for review
- Reminds the accountants of less-frequent items related to year-end closing
 - Accruals
 - capitalized assets
 - Compensated absences



“Cheat Sheets”, continued

■ Statement of Cash Flows worksheet

- Assists TREMENDOUSLY in the preparation of the Statement of Cash Flows
- Easily identifies any errors
- Eliminates the need to “chase” dollars
- Works on essentially any proprietary fund



Statement of Cash Flows (SCF) Worksheet

- Items needed
 - Statement of Net Assets
 - Statement of Activities
 - Roll-forward of capital assets
 - Roll-forward of long-term debt
- Each must foot and crossfoot or the worksheet will not work



Statement of Cash Flows Example

Public Utilities

	Cash	Capital Assets, net	Accrued vac and sick leave	Net Assets	Variance Column
2008	-	-	-	-	-
2009	-	-	-	-	-
Change	-	-	-	-	-
Cash flows from operating activities					
Receipts from customers	-			-	
Payments to suppliers	-			-	
Payments to employees	-		-	-	
Net cash from operating activities	-				
Cash flows from noncapital financing activities					
Transfers in	-				
Transfers out	-			-	
Net cash from noncapital financing activities	-				
Cash flows from capital and related financing activities					
Acquisition of capital assets	-	-			
Proceeds from disposition of capital assets	-	-		-	
Interest paid	-			-	
Net cash from capital and related financing activities	-				
Cash flows from investing activities					
Interest received	-			-	
Transfers out	-				
Net cash from CIA	-				
Net increase (decrease) in cash and temporary investments	-				
Cash and temporary investments at beginning of year	-				
Cash and temporary investments at end of year	-				
Variance betw calculated cash and cash per fin st	-				
Remaining variances		-	-	-	-
Reconciliation of operating income (loss) to cash provided by operating activities:					
Operating income (loss)	-			-	
Adjustment to reconcile operating income to net cash provided by operating activities:					

**Statement of Cash Flows Example
Public Utilities**

Cash flows from operating activities

Receipts from customers	20,500,550
Payments to suppliers	(4,917,500)
Payments to employees	<u>(8,685,500)</u>
Net cash from operating activities	<u>6,897,550</u>

Cash flows from noncapital financing activities

Transfers in	-
Transfers out	<u>(5,000,000)</u>
Net cash from noncapital financing activities	<u>(5,000,000)</u>

Cash flows from capital and related financing activities

Acquisition of capital assets	(1,648,416)
Proceeds from disposition of capital assets	186,416
Interest paid	<u>(2,100,000)</u>
Net cash from capital and related financing activities	<u>(3,562,000)</u>

Cash flows from investing activities

Interest received	1,520,000
Transfers out	-
Net cash from CIA	<u>1,520,000</u>

Net increase (decrease) in cash and temporary investments	<u>(144,450)</u>
Cash and temporary investments at beginning of year	<u>4,500,000</u>
Cash and temporary investments at end of year	<u>4,355,550</u>

**Reconciliation of operating income (loss) to cash
provided by operating activities:**

Operating income (loss)	4,081,500
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,800,000
Change in operating assets and liabilities:	
Change in accounts receivable	(150,000)
Change in accounts payable	(500)
Change in accrued expenses	1,500
Change in accrued payroll	(5,500)
Change in accrued vacation and sick	20,000
Change in deposits	-
Change in deferred revenues	<u>150,550</u>
Total adjustments	<u>2,816,050</u>
Net cash provided by operating activities	<u>6,897,550</u>



Step-by-Step Directions

1. Insert PY and CY figures
 - Make sure blue variance is zero
2. Complete Cash Flows from Operating Activities section
 - Top and bottom portion
 - Use formulas
3. Zero out other columns
 - Go column by column to keep it simple
 - Use formulas



Step-by-Step Directions, continued

4. Use roll-forward schedules for capital assets and LTD
 - Only depreciation and amortization should remain in green area
5. Complete Net Assets column for operating activities
 - Top and bottom portion
 - Include depreciation expense



Step-by-Step Directions, continued

6. Complete Net Assets column
for nonoperating activities

- Interest expense
- Interest revenue
- Gains/losses

7. If all blue variances are ZERO
then you are DONE!!





LET'S TRY ONE!!!

SCF Example

Statement of Net Assets

	2008	2009
Cash	4,500,000	4,355,550
A/R	1,200,000	1,350,000
Interest Rec'v	80,000	60,000
Capital Assets, net	8,800,000	7,550,000
A/P	(320,000)	(315,500)
Accrued Payroll	(65,000)	(62,500)
Accrued Expenses	(10,000)	(12,500)
Deferred revenue	(2,000,000)	(2,150,550)
Accrued vac/sick	(100,000)	(120,000)
Net assets	(12,085,000)	(10,654,500)
	-	-

SCF Example, continued

Statement of Activities

2009

Operating revenues:	
Charges for services	18,500,000
Misc	2,000,000
Total operating revenues	20,500,000
Operating expenses:	
Personnel	8,700,000
Contractual	3,663,000
Materials/supplies	825,000
Depreciation	2,800,000
Other	430,500
Total operating expenses	16,418,500
Operating income (loss)	4,081,500
Nonoperating items:	
Interest revenues	1,500,000
Gain on disposal of assets	88,000
Interest expense	(2,100,000)
Total nonoperating items	(512,000)
Income before transfers	3,569,500
Transfers out	(5,000,000)
Change in net assets	(1,430,500)
Beginning net assets	12,085,000
Ending net assets	10,654,500

SCF Example, continued

Capital Asset Roll-Forward

	Beg of Yr	Increases	Decreases	End of Yr
Asset:				
CIP	2,000,000	55,000	100,000	1,955,000
Bldgs	13,200,455	1,500,417	955,000	13,745,872
Machinery	4,369,741	192,999	266,747	4,295,993
Total capital assets	19,570,196	1,748,416	1,321,747	19,996,865
A/D:				
Bldgs	9,100,424	2,000,000	899,000	10,201,424
Machinery	1,669,772	800,000	224,331	2,245,441
Total A/D	10,770,196	2,800,000	1,123,331	12,446,865
Total capital assets, net	8,800,000	(1,051,584)	198,416	7,550,000



ANY QUESTIONS???