Government Guide

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Common CAFR errors
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The Government Finance Officers Association (GFOA) reviews Comprehensive Annual Financial Reports (CAFR) from all over the United States and Canada for their certificate program. While reviewing these CAFRs, they see similar errors come up from time to time. We felt it would be beneficial to our Arizona governments to discuss some of the common errors found in these CAFRs. We choose at least one error from each major section of the CAFR and discuss the error and how to correct it below.

Transmittal letter

This letter is intended to be a higher-level look at your government. A common error detected in this letter is the repetition of information already discussed in the management's discussion and analysis (MD&A). Take measures to have someone in your government, like a City Manager, read both the transmittal letter and the MD&A to ensure it doesn't come off as repetitive.

Other errors include discussions on the financial position instead of a higher-level discussion on the financial condition of your government. Also, make sure the date you use on your transmittal letter is no earlier than the date your auditors used to date their report.

Management's discussion and analysis

The readers of your statements want to know why financial statement areas had large variances throughout the year. You should focus on the reason for the percent change and change in dollars rather than using timing as the reason for differences.

Some governments aren't discussing required information such as the change in major funds, restatements, details on any new debt and any current facts effecting operations. This discussion is not meant for congratulating yourself on the financial condition, like the transmittal letter might do. Instead, focus on your financial position.

Remember, for every year you present in the basic statements, you must present one year more in the MD&A. If you have comparative statements with two years of information, you must show three years of information in the MD&A. Lastly, double check that the amounts disclosed in the MD&A agree with your statements.

Basic statements

There are many things that are reported incorrectly in the basic statements. One of the most noted items is the incorrect calculation for your Net Investment in Capital Assets Net Position designation. The error most commonly found with this calculation is the inclusion of proceeds not yet spent on capital assets and its related debt. If it hasn't been spent on capital, then the proceeds and its related debt shouldn't be included in the calculation.

Fast Facts

- Founded 1957
- 17 Partners
- 150+ team members
- 50% are CPAs
- Arizona's largest locally owned accounting firm
- Your money stays in the state
- Serving the government industry since 1957
- Average 10+ years of experience per auditor
- Your team works exclusively on government audits

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Another common error is not recalculating your major funds at the end of your audit to ensure no journal entries caused a non-major fund to now be calculated as a major fund.

Note disclosures

Many errors arise in this section of the CAFR. A common error is the lack of disclosure on what funds liquidate long-term liabilities such as compensated absences, claims and judgements, termination benefits and pension/ OPEB liabilities. Another common mistake is forgetting to disclose the formal action required by your governing board to commit fund balance. Similarly, not disclosing the highest level of decision making authority allowed to assign fund balance is common.

Required supplementary information

The most common mistake in the required supplementary information (RSI) is not including 10 years of data for your required tables. Even if you don't have 10 years of data available, that fact must be disclosed.

Statistical section

Lastly, the statistical section has had a common error for as long as it has been around. The error is in your calculation of debt service to non-capital expenditures found in your debt tables. The non-capital expenditures governments are incorrectly using has been calculated as total expenditures minus the capital outlay on the Statement of Revenues, Expenditures and Changes in Fund Balance. The correct way to calculate the non-capital expenditures is to use your total expenditures minus the capital outlay disclosed in the reconciliation between your modified accrual to full accrual statement. That number is the actual number used to recognize your additions to capital assets on your government-wide Statement of Net Position.

This is just a small sample of errors found in the CAFR. By submitting your CAFR to GFOA for their award program, you can be made aware of the errors in your CAFR and remedy a lot of issues going forward.

If you have any questions, Brian can be reached at (480) 839-4900 or BrianH@hhcpa.com.

Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.