

FINANCIAL ISSUES FOR MANAGERS

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NOVEMBER 15, 2023



Guidance You
Can Count On.



KEVIN B. STOUFFER, CPA

- Member of the Firm
- Joined SEK in 2004
- 19 years of experience
- Graduated from Shippensburg University cum laude with a Bachelor's Degree in Business Administration
- Specializes in governmental audits and currently serves as Member-in-Charge of approximately 50 local government audits, including six Conservation Districts

The background is a light blue gradient with a collage of faint, semi-transparent icons related to accounting and business. These include a laptop, a calendar, a pair of glasses, a smartphone, a calculator, a pen, a notebook with a credit card, a wallet with cash, and various charts and graphs.

BASIS OF ACCOUNTING

BASIS OF ACCOUNTING

- Cash Basis
 - Record revenues when received
 - Record expenditures when paid
 - No recording of accounts receivable or accounts payable
- Advantages
 - Closely reflects the cash position
 - Bookkeeping is easier
- Disadvantage
 - Financial results in any given period may be distorted

BASIS OF ACCOUNTING

- Accrual Basis
 - Record revenues when earned, regardless of when received
 - Offset is recording accounts receivable for amounts earned, but not yet received
 - Record expenditures when incurred, regardless of when paid
 - Offset is recording accounts payable for amounts incurred, but not yet paid
- Advantage
 - More accurate representation of finances
- Disadvantage
 - Additional bookkeeping

BASIS OF ACCOUNTING

- Accrual Basis – Internal Reporting
 - Recording Accounts Receivable – all amounts owed, but not yet received as of year-end
 - Recording of Prepaid Expenses – all amounts paid in advance of year-end, but for the next fiscal year (insurance is a common example)
 - Recording Accounts Payable – all amounts incurred, but not yet paid as of year-end
 - Recording of Accrued Payroll – all amounts of payroll incurred before year-end, but not yet paid as of year-end

BASIS OF ACCOUNTING

- Accrual Basis – External Reporting
 - Recording Capital Assets – historical cost of capital assets is included in the financial statements and depreciated over time
 - Typically an appraisal company would need to perform an inventory to create a listing of all capital assets, if a listing with costs is not already maintained
 - Recording of Long-Term Debt – loans/borrowings balances are included in the financial statements
 - Includes Leases
 - Recording of Compensated Absences – amounts of accrued pay (vacation and/or sick that will be paid upon termination) included in the financial statements

BASIS OF ACCOUNTING

- Cash vs. Accrual Basis
 - If a Component Unit of the County, may not have a choice
 - Accrual
 - If a stand-alone entity (not a component unit), may have the choice between cash vs. accrual
 - Cash Basis Financial Statements – cheaper to audit

YEAR-END

- Fiscal vs. Calendar Year-End
 - Fiscal Year-End (any date other than 12/31)
 - State budgets on 6/30 year-end and most grants also fall in this category
 - Makes the budget process easier
 - Creates a timing difference in year of transition (6 month or 18 month statements)
 - Payroll reporting to IRS will still need to be on calendar year-end
 - Calendar Year-End
 - Consistent with past practices
 - Aligns with IRS payroll reporting
 - Can have grants that span multiple years based on State year-end

The background is a light blue gradient with a collage of business-related icons and objects. These include a laptop with a bar chart on the screen, a pair of glasses, a calendar, a smartphone, a calculator, a pen, a notebook with a credit card, a wallet with cash, and several dollar signs. The central text "GRANT MANAGEMENT" is overlaid on this collage.

GRANT MANAGEMENT

GRANT MANAGEMENT

- Step 1: Identify all programs by:
 - Discussion between District Manager, staff, and accountant
 - Review previous year records
 - Review current year receipts
 - Review current year expenditures

GRANT MANAGEMENT

- Step 2: Establish a System to Track Expenditures
 - Separate tracking for each program
 - Examples include:
 - Excel spreadsheet
 - QuickBooks – classes
 - Staff timesheets
 - Ensure that the same expenditure is not captured by multiple grants
 - OK to split apart, but cannot double-dip

GRANT MANAGEMENT

- Step 3: Prepare Quarterly Reports
 - Reports should be prepared based on tracking
 - Support maintained
 - Reviewed by someone other than the preparer
- Tip: Carefully review the report requirements:
 - Certain grants are based on what was spent
 - Certain grants are based on what was incurred (accrued)
 - Payroll – work may be completed in one quarter, but not paid until the next

GRANT MANAGEMENT

- Step 4: Recording of Transactions
 - As reports are submitted, these should be tracked
 - Track of amounts owed to the District
 - Cash Basis
 - Record revenue as grants are received, regardless of what is owed
 - Accrual Basis
 - Record revenue for amounts owed
 - Typically done at year-end, but can be done throughout the year

GRANT MANAGEMENT

- Different Types of Grants
 - Working Capital – provided in advance
 - Reimbursement Basis – provided after expenditures are incurred
- Expenditures should be based on when incurred
 - Includes ACAP grant (once approved by the District)
- Revenues will still follow same principles as before
- Working Capital grants may have a liability for Unearned Revenue (accrual basis)
 - Example – Receive grant up-front and do not spend any

A light blue background with a collage of business-related icons including a laptop, glasses, a calendar, a smartphone, a calculator, a pen, a paperclip, a wallet, and various charts and graphs.

INTERNAL CONTROLS AND SEGREGATION OF DUTIES CONSIDERATIONS

INTERNAL CONTROLS

According to COSO (Committee of Sponsoring Organizations of the Treadway Commission), internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of specified objectives.

- Effectiveness and efficiency of operations
- Ensure reliable financial reporting
- Comply with laws and regulations

INTERNAL CONTROLS

Key concepts:

Internal control is a *process*. It is a means to an end, not an end in itself

Internal control is effected by *people*, not just policy manuals and forms

Internal control can be expected to provide only *reasonable assurance*, not absolute assurance

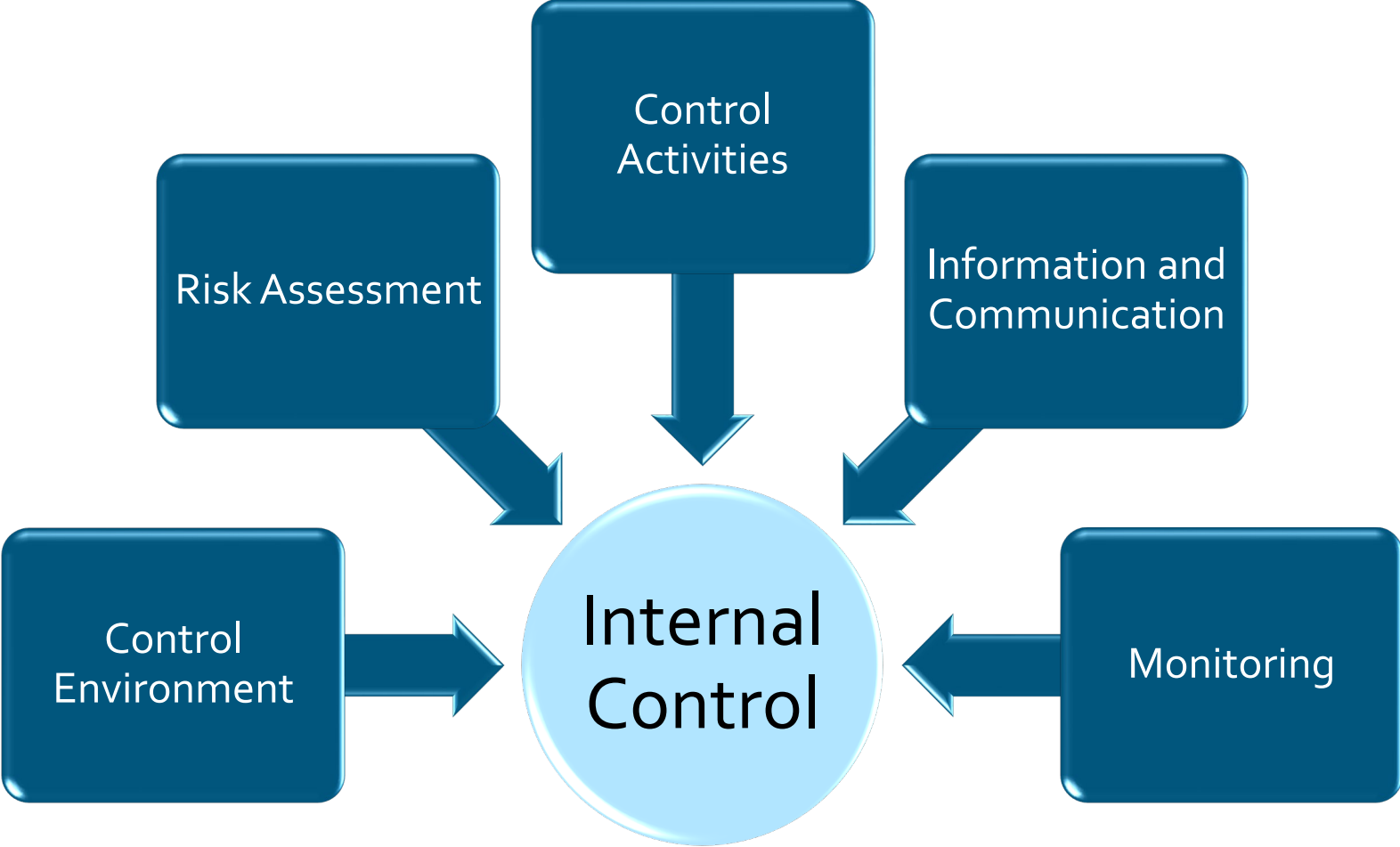
3 types of internal controls:

Preventive

Detective

Corrective

INTERNAL CONTROLS



INTERNAL CONTROLS

Policies and procedures that ensure management directives are carried out

- Top-level reviews
- Operating performance indicators/reviews
- Reconciliations
- Security of assets
- Segregation of duties

INTERNAL CONTROLS

- Cash Disbursements – what could go wrong?
 - Payments could be made to fictitious vendors
 - Disbursements could be made for the wrong amount
 - Duplicate payments could be made on an invoice
 - Disbursements could be recorded in the wrong period

INTERNAL CONTROLS

- Cash Disbursements – Examples
- Segregation of duties – limiting the involvement that one person has in a process
 - Separate the duties of approving invoices for payment, opening the mail, issuing checks, signing checks, and reconciling the bank statement
- Procurement Cards
 - Should have the same approval processes as regular cash disbursements

INTERNAL CONTROLS

- Cash Disbursements – Suggestions
 - Invoices should be approved for payment by someone other than the individual who will enter into the accounting software/system
 - Mail should be opened by someone other than the individual who has the ability to create checks
 - All checks should be signed by more than one individual (not a stamp or preprinted)
 - Ideally, bank statements are reconciled by someone without other cash disbursement or cash receipts duties, or at a minimum, reviewed by someone independent of these functions

INTERNAL CONTROLS

- Payroll – what could go wrong?
 - Payments could be made to fictitious employees
 - Employees could be paid the incorrect pay rate
 - Employees could be paid for hours not worked

INTERNAL CONTROLS

- Payroll – Examples
- Segregation of duties – limiting the involvement that one person has in a process
 - Employees are required to maintain time sheets, use of a time card, review/authorization of time worked by each employee, signing checks, and reconciling the bank statement

INTERNAL CONTROLS

- Payroll – Suggestions
 - Have all pay rates be approved by the Board on an annual basis, at a minimum
 - Approval of time sheets/hours worked for each pay period, including all paid time off

INTERNAL CONTROLS

- Cash Receipts – what could go wrong?
 - Funds received could be credited to the wrong customer account
 - Cash could be stolen by an employee and not recorded
 - Amounts receivable may never be collected due to failure to follow-up on past due amounts

INTERNAL CONTROLS

- Cash Receipts – Examples
- Segregation of duties – limiting the involvement that one person has in a process
 - Separate the duties of handling cash and making the deposit (recommend a deposit log), entering the deposit into the accounting software/system, and reconciling the bank statement
 - Daily Cash Reports should show revenue by major category
 - The date of receipt and date of deposit should be included

INTERNAL CONTROLS

- Cash Receipts – Suggestions
 - When cash is received, a deposit slip or log, should be maintained by someone other than the individual that will enter and record.
 - Copy of the log/checks given to the individual to enter and record.
 - Create invoices for any amounts owed to the District.
 - Require receipts given to customers for all payments received.

Q&A

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