2025 Maine Office of the State Controller Training Event

September 16, 2025

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Future-Ready Leadership

Cultivating New Leadership, Navigating Transitions, Securing the Future

Gerry Boaz, CPA, CGFM, CGMA
Director in Government Advisory
Services Department, Eide Bailly

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Disclaimer

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.

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Gerry Boaz, CPA, CGFM, CGMA
Director – Government Advisory Services
Nashville, TN

- 30+ years of Governmental Auditing, Accounting, and Advisory services experience:
  - Former Technical Manager (Quality Assurance) with the TN Comptroller of the Treasury, Division of State Audit (i.e., State Auditor's Office) and served as a representative of the National Association of State Auditors, Comptrollers, and Treasurers (NASACT) by observing and writing an account of the GASB meetings.
  - Currently works directly with Eide Bailly's state, as well as other government, clients to improve their organizational efficiency and effectiveness through digital transformation and automation and GASB statement implementations, including other advisory services.
- Serves or served on the following professional organizations:
  - AICPA: Auditing Standards Board for a three-year term (January 2015-January 2018) and its Audit Issues Task Force (AITF), Group Audits and Other Information task forces.
  - NASACT and National State Auditors Association (NSAA): Represented TN State Audit on the Single Audit, Auditing Standards and Reporting (ASRC), and Peer Review Committees (served as a Vice Chair for both the Single Audit and ASRC committees); Committee on Accounting, Reporting, and Auditing (CARA – 24 years), and Pension Audit Issues and Leases Implementation Working Groups.
  - AGA: National Governing Board (NGB 2020-22) as AGA National President and President-elect, Leadership Development Committee (2022-23), Financial Management Standards Board (2020-current), Past National President/Treasurer Council (PNP/PNT), Professional Certification Board (PCB 2007-14) and as PCB Chair (2010-14), National Executive Committee (now NGB) because of being the PCB Chair (2010-14), Governance Committee (2015-19) and Chair (2017-18), Nashville AGA Chapter President (2006-07), Southeast Regional Vice President (RVP 2015-16) and National Nominating Committee.
  - Government Finance Officers Association's (GFOA): Accounting, Auditing, and Financial Reporting Committee (AAFRC) for two three-year terms (2004-2009), the Special Review Committee for its certificate of achievement program (24 years), and the GAAFR (Blue Book) Working Group (2019-24).
  - Tennessee Government Executive Institute: 2011 alumnus.
  - GASB: OPEB and Revenue and Expense Recognition (RER) task forces.
  - GAO: Single Audit working group.

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\#	Activity Detail	Start Time	Duration (minutes)	End Time
	**2025 OSC CPE Training Objectives**			
	Start time Registration 7:15 am			
1	Welcome, housekeeping, Introductions	07:45 AM	5 mins	07:50 AM
2	Succession Planning and Organizational Change Management (Gerry Boaz)	07:50 AM	50 mins	08:40 AM
3	Break	08:40 AM	15 mins	08:55 AM
4	GASB Update (Lisa Parker)	08:55 AM	75 mins	10:10 AM
5	Break	10:10 AM	10 mins	10:20 AM
6	Internal Audit, Internal Control & Risk Assessment (Gerry Boaz)	10:20 AM	75 mins	11:35 AM
7	Lunch	11:35 AM	35 mins	12:10 PM
8	Governing the Future - Digital Transformation/ Process Optimization and Smart Contracts in Public Service (Gerry Boaz)	12:10 PM	50 mins	01:00 PM
9	Break	01:00 PM	10 mins	01:10 PM
10	Governing the Future (cont.): Case studies of AI & RPA capabilities and innovations (Gerry Boaz)	01:10 PM	75 mins	02:25 PM
11	Break	02:25 PM	15 mins	02:40 PM
12	Effective Governmental Audit Preparation & Management (Gerry Boaz) and Wrap up!	02:40 PM	75 mins	03:55 PM

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How ready is your organization if a key leader left tomorrow?

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Agenda

The Landscape.

Succession Planning and Change Leadership.

Assessing your Leadership Bench.

Practical Strategies for Succession and Knowledge Transfer.

Final Reflection and Personal Action Planning.

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Shrinking Pipeline; Growing Leadership Gap

- >28% of federal workforce age 55+; ~15% in their 60s.
- 75% of CPAs are 55+.
- Federal government takes an average of 100 days to hire a new employee.
- Number of accounting undergraduates has dropped to a 15-year low (⬇ 7.8% in 2022):
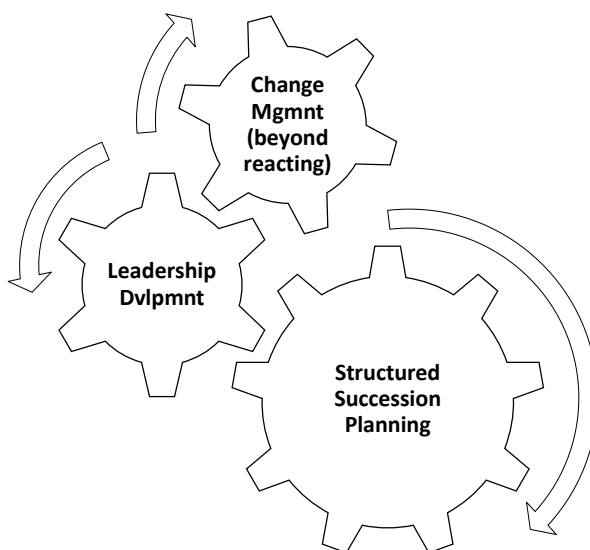 - Glimmer of hope: IRS VITA & University pipelines.

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Your Leadership Landscape

- Cultural Continuity
- Developmental Equity
- Adaptive Planning
- Leadership Identity

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Strategic Leadership

- **Turnover**
- **Generational Shifts**
- **Knowledge Loss**
- **Culture Continuity**

Change Mgmnt (beyond reacting)

Leadership Dvlpmnt

Structured Succession Planning

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Practical, *Foundational* Succession Strategies

Document key tasks/SOPs.

Centralize files (SharePoint, Google Drive).

Shadowing & rotating attendance at key meetings.

Real-time mentorship tied to projects.

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Advanced Succession Strategies

Succession Risk Audits	Knowledge Transfer Mapping	Capability Development Pathways
Role Transition Playbooks	Peer-to-Peer "Legacy Debriefs"	Reverse Mentorship

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Skills-based Task Mapping

| Break Roles Into Recurring Tasks (and Req'd Skills) | Identify Invisible Knowledge | Document Institutional Knowledge | Identify Fragile Systems | Identify and Rectify Training Gaps |
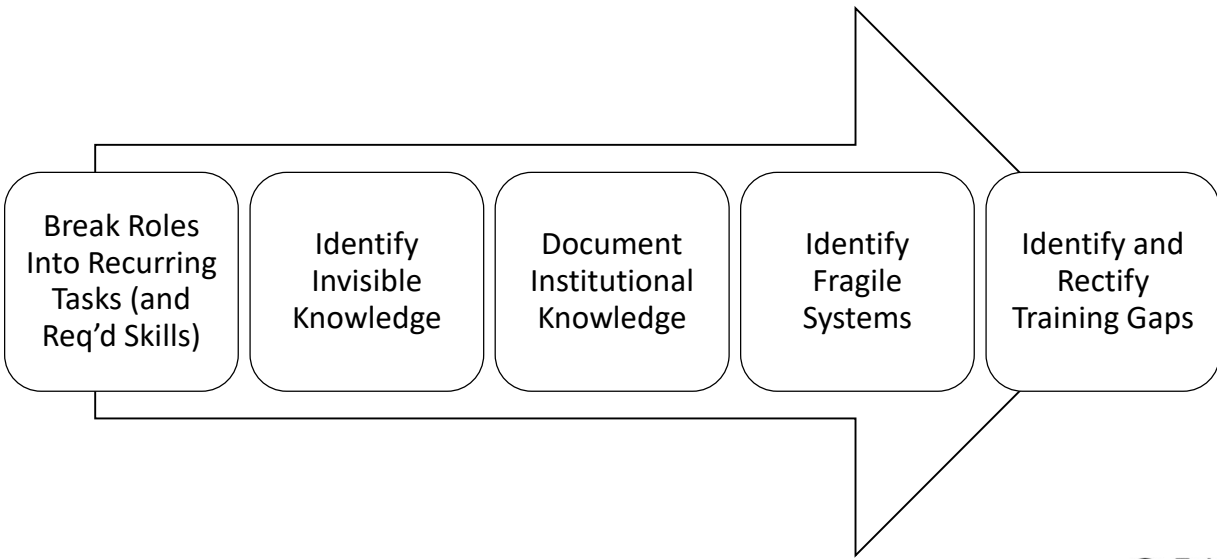
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Succession Risk & Opportunity Matrix
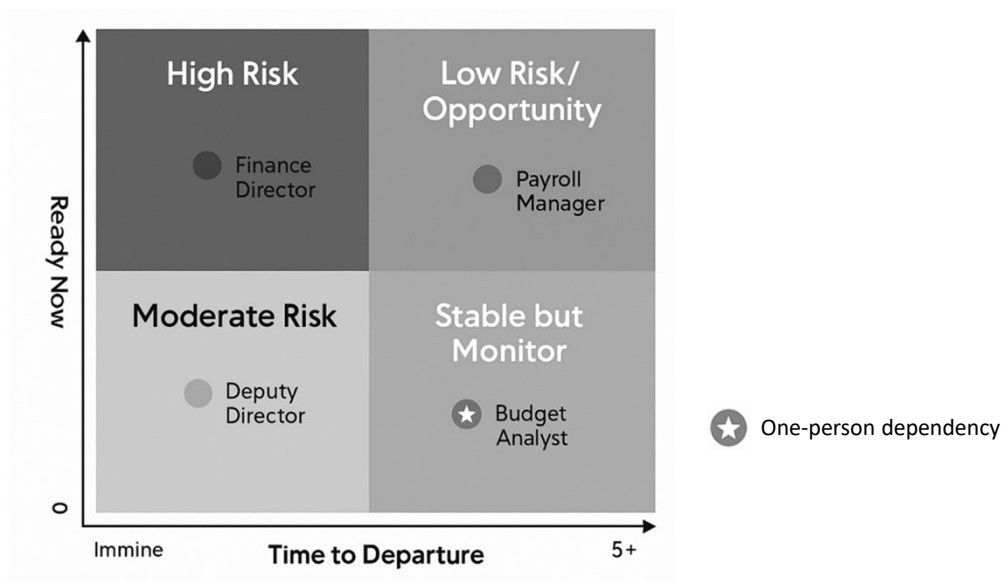
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Reframing Succession Planning as Proactive Strategy

Narrative & Organizational Storytelling	Culture Continuity vs. Culture Evolution	Networked Leadership vs. Individual Successors	Developmental Equity
Emotional Readiness and Identity Shifts	Adaptive Scenarios	Board and External Stakeholder Engagement	Succession as a Leadership Development Culture

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Leadership Development Across Generations

- Generational Differences.

- Today's workforce values.

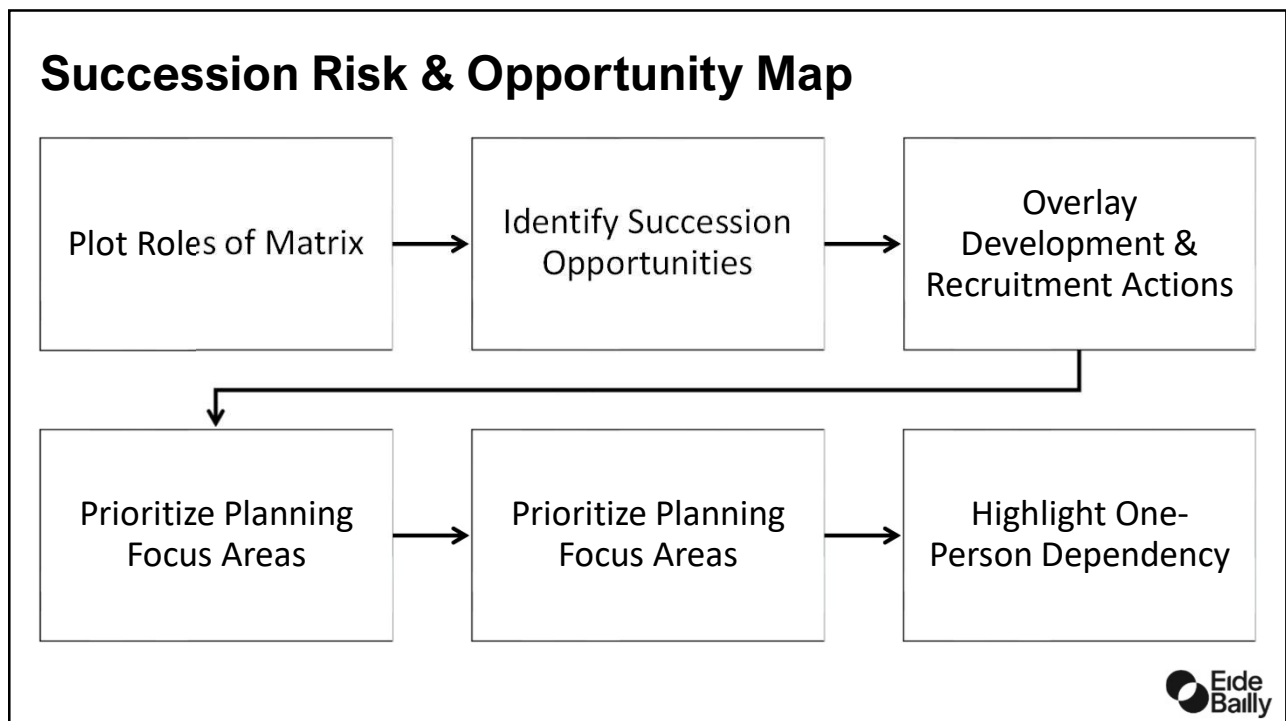- Making leadership visible & viable.

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Closing

- 1 action in next 2 weeks.
- 1 action in next 30 days.
- Choose an accountability partner + exchange info.
- Start now, start small, but START!

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Succession Risk & Opportunity Map

| Plot Roles of Matrix | → | Identify Succession Opportunities | → | Overlay Development & Recruitment Actions |

| Prioritize Planning Focus Areas | → | Prioritize Planning Focus Areas | → | Highlight One-Person Dependency |

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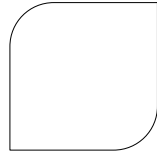# Questions?

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Developing an Effective Framework of Internal Control, Including Risks Assessments, and Internal Audit's Role
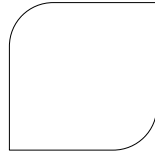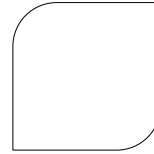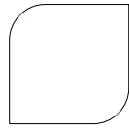
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Focus Areas for Today's presentation

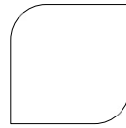THE ROLE OF POLICY IN FINANCIAL MANAGEMENT
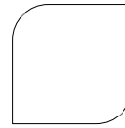
EXTERNAL INFLUENCES ON POLICY

INFLUENCES OF BEST PRACTICES ON POLICY

FINANCIAL POLICIES VERSUS FINANCIAL PROCEDURES

KEY ELEMENTS OF CRITICAL POLICIES AND RELATED QUESTIONS

ROLE OF INTERNAL CONTROLS IN ENFORCING POLICY

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Foundational Principles

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Professional Skepticism and Professional Judgment

PROFESSIONAL SKEPTICISM

- An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence.

PROFESSIONAL JUDGMENT

- The application of relevant training, knowledge, and experience, within the context provided by auditing, accounting, and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

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Materiality in the Context of an Audit (AU-C 320.02)

- Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and fair presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that
  - misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.
  - judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.
  - judgments about materiality involve both qualitative and quantitative considerations.
  - judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

AU-C 320.05
Concept of materiality
- evaluating the effect of identified misstatements on the audit and
- the effect of uncorrected misstatements, if any, on the financial statements
- in forming the opinion in the auditor's report. (Ref: par. .A2)

AU-C 320.09 Performance materiality.
The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

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Performance materiality (AU-C 320.09)

- The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to (opinion units) reduce to an appropriately low level the probability the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole (opinion unit level).

AU-C 320.05
Concept of materiality
- evaluating the effect of identified misstatements on the audit and
- the effect of uncorrected misstatements, if any, on the financial statements
- in forming the opinion in the auditor's report. (Ref: par. .A2)

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Overall Objectives of the Auditor (AU-C 200)

- **AICPA Audit and Accounting Guide, *State and Local Governments (SLG)***
- **4.04** AU-C section 200 defines audit risk
- Audit risk is a function of the following two components:
  a) Risk of material misstatement (RMM), which is the risk that the financial statements are materially misstated prior to the audit. At the assertion level, this risk consists of two components: **inherent risk and control risk**.
  b) Detection risk, which is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or in the aggregate with other misstatements.

- Audit Risk =
- the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.
- Quantitative and qualitative characteristics to consider

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Qualitative vs. Quantitative (AICPA SLG 4.65)

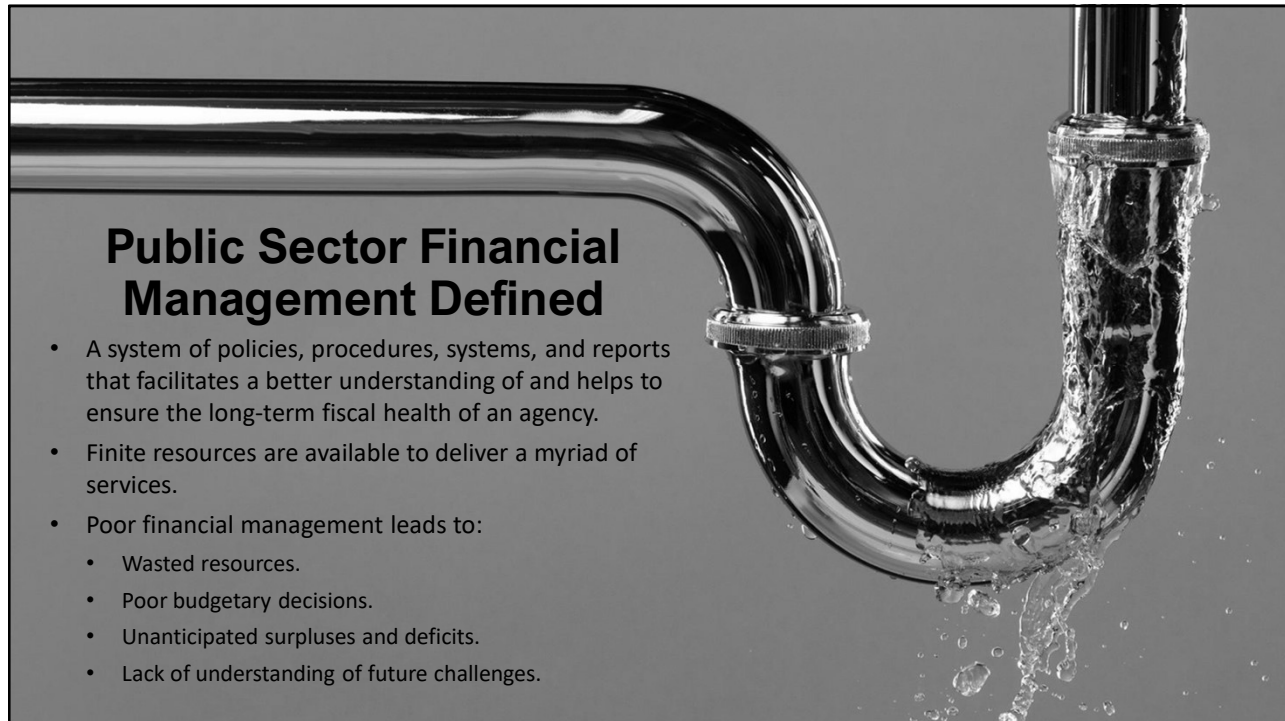- Qualitative inherent risk factors relating to the preparation of information required by the applicable financial reporting framework include the following:
  - Complexity
  - Subjectivity
  - Change resulting from events or conditions
  - Uncertainty
  - Susceptibility to misstatement due to management bias or other fraud risk factors affecting inherent risk

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The Role of Policy in Financial Management

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Public Sector Financial Management Defined

- A system of policies, procedures, systems, and reports that facilitates a better understanding of and helps to ensure the long-term fiscal health of an agency.

- Finite resources are available to deliver a myriad of services.

- Poor financial management leads to:
  - Wasted resources.
  - Poor budgetary decisions.
  - Unanticipated surpluses and deficits.
  - Lack of understanding of future challenges.

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The Role of Policy in Financial Management

All of these areas can benefit from thoughtful policy guidance, but first one must understand

- What role do external influences play?

- What role do best practices play?

- What content is appropriate for policy versus procedures?

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Examples of Policies and Areas They Govern

POLICY EXAMPLES

- Budget Adoption and Administration
- Purchasing and Contracting
- Cash Management
- Accounting and Financial Reporting
- Risk Management
- Fund Balance
- Capital Asset Management
- Debt Management
- Investments
- Disposition of Surplus Property
- Fraud, Waste, and Abuse

AREAS THEY GOVERN

- Operating budget
- Revenue and expenditures
- Reserves
- Capital improvements
- Debt management
- Investments
- Procurement
- Risk management
- Position control and authorization
- Accounting operations
- Year-end close and financial reporting

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External Influences on Policy

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External Influences on Policy

State Code / Agency Charter

Municipal / Agency Code

Ordinances or Resolutions

Policies of the governing body

Administrative policies and procedures

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Example: Purchasing Policy

- Depending on your agency type:
  - Various components of the state law governing public contracts, government operations, water agencies, labor issues, etc. contain requirements that pertain to procurement.
  - Charter cities may have requirements in the City Charter that pertain to procurement.
  - Ordinances or Resolutions of the governing body may contain procurement-related requirements.
- One must have an understanding of the regulatory framework influencing a policy before drafting the policy to ensure that it is fully compliant.

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Influences of Best Practices on Policy

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What is a Best Practice?

- Best Practices identify specific policies and procedures that contribute to improved government management.

- They aim to promote and facilitate positive change or recognize excellence rather than merely to codify current accepted practice.

- Best Practices are typically codified and tailored to an agency's specific situations through fiscal policies that guide effective financial management.

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External Influences on Policy

GFOA Best Practices

(1) Adopting Financial Policies
(2) Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund
(3) Determining the Appropriate Levels of Working Capital in Enterprise Funds
(4) Establishing Government Charges and Fees
(5) Establishing an Effective Grants Policy
(6) Enterprise Risk Management
(7) Achieving a Structurally Balanced Budget
(8) The Public Finance Officers Role in Fiscal Sustainability
(9) The Public Finance Officers Role in Collective Bargaining
(10) Key Issues in Succession Planning
(11) Ensuring Other Postemployment Benefits (OPEB) Sustainability
(12) Sustainable Funding Practices for Defined Benefit Pensions and OPEB
(13) Establishment of Strategic Plans
(14) National Advisory Council on State and Local Budgeting
(15) Long-Term Financial Planning
(16) Budgeting for Results and Outcomes
(17) Performance Management
(18) Best Practices in School District Budgeting

(19) Best Practices in Community College Budgeting
(20) Public Participation in Planning, Budgeting and Performance Management
(21) Financial Forecasting in the Budget Preparation Process
(22) Effective Budgeting of Salary and Wages
(23) Inflationary Indices in Budgeting
(24) Strategies for Managing Health-Care Costs
(25) Evaluating Service Delivery Alternatives
(26) Measuring the Full Costs of Government Service
(27) Pricing Internal Services
(28) Presenting Official Financial Documents on Your Government's Website
(29) Making the Budget Document Easier to Understand
(30) Accurately Displaying Total Expenditures in Budget Presentations
(31) Department Presentation in the Operating Budget Document
(32) Capital Budget Presentation
(33) The Statistical/Supplemental Section of Budget Document
(34) Basis of Accounting versus the Budgetary Basis
(35) Budget Monitoring

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Example: GFOA Best Practices Focusing on Budgeting

- Strategic Planning and Performance Measures.

- Long-Term Financial Planning.

- Revenue-Related Best Practices.

- Financial Forecasting in the Budget Preparation Process.

- Effective Budgeting of Salary and wages.

- Achieving a Structurally Balanced Budget.

- Public Engagement in the Budget Process.

- Budget Monitoring.

- And more!

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Example of Best Practice Structure

BEST PRACTICES

Effective Budgeting of Salary and Wages

Every government should consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel.

- Key policy statement, followed by explanatory detail covering required policy elements, internal controls, and reporting, which in this case includes:

  - Personnel tracking system
  - Vacancy adjustments
  - Start dates
  - Trends

  - Frozen or eliminated positions
  - Funded versus unfunded positions
  - Attrition
  - Inflation
  - And more

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LEARN MORE
https://www.gfoa.org/best-practices

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Financial Policies Versus Financial Procedures

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- **Policy:** *High-level and have a board or council orientation:*
  - High level policy which is worthy of governing boards limited time.
  - Example: Reserve Policy.
- **Procedure:** *Detailed outline of how a policy is to be implemented:*
  - Is staff oriented.
  - Item usually requires management decision making.
  - Very detailed outline of how to implement the procedure.
  - Example: Cash Handling Procedure.

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Why Financial Policies?

- Provide a framework within which to conduct financial management.

- Ensure that no balls get dropped due to turnover.

- If approved by the governing body, reinforce the importance of financial management to constituents.

- Not having a policy → is a policy.

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Policy and Procedures Hierarchy

Regulatory Framework and Best Practices

Policies of the Governing Body

Organizational Administrative Policies

Administrative Procedures

Department Processes / Desk Procedures

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Determining The Right Place for Policies and procedures

It is important that policy is properly located within the hierarchy of possible locations.

- Codified or adopted by the governing body.
- Approved by the chief executive.
- Approved by the applicable department head.

Typically, the higher level the policy, the less detail is included.

- Focus on key elements that need that level of policy guidance.
- Expand in a lower level of policy.

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EXAMPLE: BUDGET ADJUSTMENTS

| Governing Body | • Establish parameters for budget amendments and transfers requiring governing body approval. |

| Chief Executive | • Develop administrative policies governing the process for requesting budget amendments and transfers. |

| Department Head | • Develop department procedures for processing requests and posting to the financial system. |

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Example: Purchasing Policy Dollar Thresholds

Governing Body

- Establish dollar thresholds for competitive bidding and allowable exceptions to competitive bidding.

Chief Executive

- Develop administrative policies governing the approval process for utilizing the allowable exceptions to competitive bidding.

Department Head

- Develop department procedures for managing the advertising process for construction projects.

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Example: Utility Accounts Receivable and Billing

Governing Body

- Establish parameters for adjustments and write-offs, as well as dollar thresholds requiring approval of chief executive and governing body and appeals.

Chief Executive

- Develop administrative policies governing the process for executing adjustments and write-offs relative to approvals, as well as the process for managing appeals.

Department Head

- Develop department procedures for tracking and making changes within the billing system.

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Updating and Enforcing Policies

- It's not enough just to have policies, they must be followed and be updated / reviewed regularly.

- Include penalties for failure to follow appropriate policies (e.g., failure to comply with the procurement or purchasing card policies will result in progressive discipline).

- Incorporate a framework for routine review and update:

  - Last updated dates.

  - Next review dates.

  - Assign an appropriate stakeholder responsibility for updates.

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IMPACTS OF THE LACK OF FINANCIAL POLICIES

- Lack of effective financial policies can result in inefficient financial management practices, increased risk, and the misalignment of financial operations with the overall mission of an organization.

- At its best, finance works quietly in the background, contributing to the overall service delivery operations for a community.

- But when things go wrong, financial administration failures are painfully visible.

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Key Elements of Critical Policies and Questions To Ask

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Reserve Policies

- Issue: Reserve policies either do not exist or reserve levels are not set based on the risk levels impacting the agency.

- Potential problems:
  - Reserve levels are too high, restricting resources that could be utilized for other purposes.
  - Reserve levels are too low, putting the agency at risk in the event of a significant event or financial downturn.
  - Reserves are not properly categorized.
  - No risk analysis has been performed to determine appropriate reserve levels.

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Reserve Policies – Questions To Ask

- GFOA General Fund Reserve Calculation Worksheet:

  https://www.gfoa.org/materials/general-fund-reserve-calculation-worksheet

- Evaluates an agency's unique risks.

- Numeric score places an agency into one of four risk categories:

  - Minimal – minimum reserve level of two months of operations.

  - Low to moderate – Level at or above the minimum based on peer benchmarking.

  - Moderate to high – Higher level with more detailed analysis of risk exposure.

  - High – Highest level with detailed analysis of risk exposure.

- Local conditions may dictate the need for larger reserves.

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USING RESERVES FOR STABILIZATION

- Describe how reserves fit into a "bridging" strategy.

- Maintain a credible fund balance policy.

- Distinguish between one-time and permanent decreases:

  - If one-time, how long will downturn last?

- Develop a replenishment strategy:

  - How will it be replenished?

  - When will it be replenished?

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Debt Management Policies

- Issue: Debt management practices may be inadequate, and requirements are always changing.

- Potential problems:

  - Late or unfiled disclosure and arbitrage reports.

  - Failure to file material event notices.

  - Lost investment earnings potential.

  - Bond proceeds on hand for years.

  - Inadequate recordkeeping for IRS audit purposes.

  - Private activity issues.

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Debt Management Policies – Related Questions to Ask

- Is there a comprehensive, frequently-updated debt management policy and clear procedures for staff to follow?

- Who prepares disclosure and arbitrage reports and material event notices (or are they being prepared) and are they filed timely?

- How are bond proceeds and reserve funds invested and how long have bond proceeds been on hand?

- How long are records of bond proceeds expenditures kept?

- Is a monitoring program in place to check for new private activity uses of bond-financed facilities?

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Investment Policies

- Issue: Many agencies have out of date investment policies or do not optimally invest funds.

- Potential problems:

  - Unnecessary policy limitations.

  - Inconsistency with state law or current practices.

  - Inadequate reporting to Council or Board.

  - No cash flow modeling / cash shortages.

  - High bank or money market balances.

  - Low interest earnings.

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Investment Policies – Related Questions to Ask

Who is maintaining the investment policy and when was it last updated?

Are investment reports provided to the Council or Board?

Is cash flow modeling currently utilized to maximize invested funds?

Do cash shortages exist that require external borrowing?

Are bank or money market balances sized appropriately?

Does staff have the expertise and time to manage the portfolio?

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Procurement Policies

- Issue: Failure to provide adequate oversight to the procurement process can result in violations of the law or internal policies and procedures.

- Potential problems:
  - Payment of invoices without a purchase order.
  - Introduction of opportunities for fraud.
  - Issues with adequacy of competitive selection.
  - Splitting of purchases / unnecessarily low bid limits.
  - Inadequate tracking of change orders.
  - Exceeding Council or Board-authorized contract or change order limitations.

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Procurement Policies – Related Questions to Ask

Are procurement policies out of date? What do the departments think?

Is bid splitting happening and/or are bid limits too low?

Is a process in place to ensure that departments are really trying to obtain competitive quotes?

Are purchase orders always required other than for specific types of purchases?

Are change orders tracked by Finance to ensure accurate encumbrances?

Is a process in place to monitor spending limitations imposed by the Council or Board?

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Budget Administration Policies

- Issue: Budget processes may be informal, inadequate, and/or inconsistent with regulatory requirements.

- Potential problems:

  - Budget transfers approved without proper authorization.

  - Appropriations approved without proper authorization.

  - Inadequate procedures for the management of budget carryovers.

  - Inadequate processes for evaluating budget enhancements.

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Budget Administration Policies – Related Questions to Ask

- Is the budget process well understood, formalized, and appropriate for the size and complexity of the agency?

- Is a framework in place to evaluate requests for additional funding or budget transfers?

- Are appropriate controls in place to prevent unauthorized appropriations or transfers?

- Is a formalized process in place for the evaluation and approval of budget carryovers?

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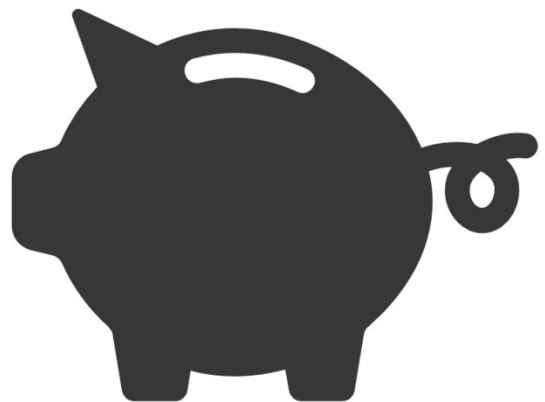
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Cash Management Policies

- Issue: Controls over cash management may be inadequate or inconsistent across the agency.

- Potential problems:
  - Differing procedures at various points of payment.
  - Inadequate review and approval of cash receipts reporting.
  - Infrequent transfers, inadequate storage, or inappropriate deposit mechanisms for cash on hand.

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Cash Management Policies – Related Questions to ASK

Are cash management procedures standardized throughout the organization?

Is Finance ultimately responsible for and approving any variances in these procedures?

Is cash transported, stored, and tracked appropriately?

Are appropriate levels of review in place to ensure control over cash on hand on a daily basis?

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Capital Asset and Inventory Policies

- Issue: Capital assets may not be properly tracked or coded upon purchase or inventory may not be properly controlled.

- Potential problems:

  - Capital assets are recorded in operating expenditure accounts.

  - Capital purchases are not adequately tracked and are missed.

  - Inventory is not tracked or is expensed upon purchase.

  - Inventory counts are infrequent, and discrepancies are not reconciled.

  - Asset disposal practices are not centralized.

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Capital Asset and Inventory Policies – Related Questions to Ask

Does the financial system include a mechanism to properly track and identify capital purchases at the time of purchase?

Is the disposal of capital assets centrally managed and monitored?

Is appropriate control over inventory in place, are counts undertaken regularly, and are discrepancies reconciled?

Are valuable inventory items tracked with appropriate controls over their use?

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Long-Term Financial Planning Policies

- Issue: Long-term financial planning is not a priority or is conducted irregularly without material updates considered during the budget process.

- Potential problems:

  - The impact of current financial decisions on the long-term financial plan is not considered.

  - The long-term financial plan is infrequently updated and only when a triggering event occurs such as the issuance of debt.

  - The long-term financial plan is an internal staff document.

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Long-Term Financial Planning Policies – Related Question to Ask

Is the long-term financial plan regularly updated and presented to the governing body?

Are the impacts of budgetary decisions on the long-term financial plan considered as a matter of routine?

Is the complexity and scope of the long-term financial plan appropriate for the size and complexity of the agency?

Are subject matter experts in departments a part of the long-term financial planning process?

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Fraud, Waste, and Abuse Policies

- Issue: The agency does not prioritize a culture of preventive controls relative to fraud, waste, and abuse.

- Potential problems:

  - Internal audits, spot counts, etc. are not regularly conducted.

  - A fraud hotline or other reporting mechanism is not in place.

  - A lack of appropriate definitions for what constitutes fraud, waste, or abuse results in grey areas.

  - A lack of procurement and expenditure controls prevents detection of related fraud.

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Fraud, Waste, and Abuse Policies – Related Questions to Ask

Does the governing body prioritize fraud, waste, and abuse detection and mitigation?

Does management emphasize the importance of reporting and detection?

Is a fraud hotline or other reporting mechanism in place?

Are definitions of what constitutes fraud, waste, and abuse well understood by employees?

Are random checks, audits, etc. a part of routine business?

70

Position Control Policies

- Issue: Information provided by the HR Department is not sufficient or timely and impacts payroll operations.

- Potential problems:

  - Employees are paid after they have separated or are placed on leave.

  - Merit increases, cost of living adjustments, or benefits adjustments are not processed timely.

  - Employees are hired for which there are no funds budgeted.

  - Retired annuitants or temporary employees are not properly tracked or reported to the pension system.

  - Employee pay is inconsistent with approved schedules and/or is not periodically reviewed.

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Position Control Policies – Related Questions to Ask

Is Finance part of the employee separation or leave workflow?

Do current procedures ensure that changes in salaries and benefits are processed timely by payroll?

Is available budget checked prior to initiating recruitments?

Are retired annuitants and temporary employees tracked to ensure compliance with State pension plan regulations (e.g., State statutes)?

Are any employees paid more or less than per authorized salary schedules?

Are additional pay amounts reviewed periodically and checked by managers with knowledge of the positions?

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Role of Internal Controls in Enforcing Policy

73

What are Internal Controls? The Technical Answer…

- Internal control is a process effected by an agency's oversight body, management, and other key personnel that provides reasonable assurance of the achievement of objectives related to operations, reporting, and compliance.

Objective identified → Controls designed → Controls in place → Objective achieved

Source: GAO. | GAO-14-704G

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No, Really…What are Internal Controls?

- At its simplest, internal control is a **process**.

- The goal of this process is to **provide reasonable assurance** (not absolute assurance) that we can achieve our objectives related to operations, reporting, and compliance (and fraud prevention).

- Internal controls are **tools** to help management avoid problems like misappropriation of funds, non-compliance with rules and laws, operational failures, and inaccurate financial reporting.

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Organizational Perception of Internal Controls

- Some organizations treat internal controls as a tedious task that sits at the bottom of the to-do list.

- Internal controls are a powerful tool to protect an organization's interests and assets.

- Effective internal controls help organizations ensure compliance with policies and procedures.

- A well-designed internal control system can lead to more effective and efficient operations.

- Allows organizations to identify and improve upon duplicate or unnecessary procedures and/or weaknesses in their systems and processes.

- Organizations have internal controls to comply with applicable laws and regulations:

  - Being on the wrong side of laws and regulations can be very expensive for organizations, both in terms of fines and judgments and in negative hits to the organization's reputation.
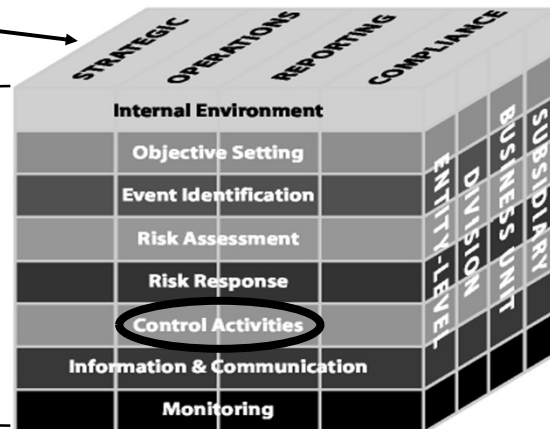
76

Elements of ERM: The COSO Model

FOUR OBJECTIVE CATEGORIES:
1. STRATEGIC
2. OPERATIONS
3. REPORTING
4. COMPLIANCE

EIGHT COMPONENTS:
1. INTERNAL ENVIRONMENT
2. OBJECTIVE SETTING
3. EVENT IDENTIFICATION
4. RISK ASSESSMENT
5. RISK RESPONSE
6. CONTROL ACTIVITIES
7. INFORMATION AND COMMUNICATION
8. MONITORING

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Management Evaluation

Effectiveness of Controls

- A control cannot be operating effectively if it was not effectively designed and implemented:
  - A deficiency in design exists when:
    - A control necessary to meet a control objective is missing; or
    - An existing control is not properly designed so that even if the control operates as designed, the control objective would not be met.
  - A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system.

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Management Evaluation

- Management evaluates the significance of a control deficiency by considering:

  - Magnitude of impact: the likely effect a deficiency could have on the entity achieving its objectives and is affected by factors such as size, pace, and duration of the impact.

  - Likelihood of occurrence: the possibility of a deficiency impacting an entity's ability to achieve its objectives.

  - Nature of deficiency: degree of subjectivity involved and whether fraud or misconduct is involved.

- Management considers the correlation among different deficiencies or groups of deficiencies when evaluating their significance.

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Control Environment

Examples that could indicate either effective or deficient internal control:

Green Flags:

- Management has a developed organizational structure with clearly defined roles.

- Programs are in place to train personnel and reinforce standards of conduct.

- Internal control is adequately documented and reflects the current operating environment.

Red Flags:

- Personnel do not understand what behavior is acceptable or unacceptable.

- Top management is unaware of actions taken at the lower level of the entity.

- It is difficult to determine the entities or individuals that have responsibility for programs or particular parts of a program.

- The entity's structure is inefficient or dysfunctional.

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Risk Assessment

Examples that could indicate either effective or deficient internal control.

Green Flags:

- The agency has defined objectives that are easily understood at all levels.
- Management acknowledges risk exists and assesses and analyzes risk throughout the agency.
- The agency has programs in place to combat fraud, waste, and abuse.
- The agency plans for and quickly adjusts to internal and external changes.

Red Flags:

- The agency or program does not have well-defined objectives.
- The agency or program does not have adequate performance measures.
- The agency is unable to prioritize work appropriately.
- The agency is unaware of obstacles to its mission.
- The agency is unable to overcome obstacles to its mission efficiently or at all.

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Control Activities

Examples that could indicate either effective or deficient internal control.

Green Flags:

- The agency has proper segregation of duties of key duties and responsibilities.
- The agency has policies and procedures in place to ensure the safeguarding of assets.
- Transactional data is promptly recorded and supported by sufficient documentation.
- Policies and procedures are routinely reviewed and updated.

Red Flags:

- Employees are unaware of policies and procedures but do things the way "they have always been done."
- Operating policies and procedures have not been developed or are outdated.
- Key documentation is often lacking or does not exist.
- Key steps in a process are not being performed.

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Information and Communication

Examples that could indicate either effective or deficient internal control.

Green Flags:

- Management continually evaluates sources of data to ensure information is reliable and accurate.

- Information is accessible and reliable for use internally and externally.

- Policy changes implemented by management are known to and implemented by staff.

Red Flags:

- Management is using poor quality information or outdated information for making decisions.

- Staff are frustrated by requests for information because it is time-consuming and difficult to provide the information.

- Management does not have reasonable assurance that the information it is using is accurate.

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Monitoring

Examples that could indicate either effective or deficient internal control.

Green Flags:

- Management implements changes to control structure to enhance efficiency and effectiveness of procedures.

- Documented evaluations exist related to internal control issues.

- Corrective action plans are documented and implemented by management to ensure control deficiencies are addressed.

Red Flags:

- Management does not evaluate a program on an ongoing basis.

- Significant problems exist in controls and management is unaware of problems until a bigger problem occurs.

- There are unresolved problems with the other components: control environment, risk assessment, control activities, and information and communications.

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Policy-Related Internal Control Best Practices

- Conduct an **annual review** of controls, guidance, procedural documentation and process maps outlined in policies and procedures.

- Ensure and regularly evaluate **strict processes** surrounding delegated expenditure authority.

- Conduct an **annual review** of policies and procedures and develop related training materials.

- **Test controls** frequently to ensure they are working as designed and adjust them based on results.

- **Automate controls** to ensure compliance with policy and procedures when and where possible.

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Policy-Related Internal Control Examples

Cash Management
- Steps to prevent losses of funds which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees of the unit of local government.

Investments
- Chart of investment activities and discussion of each step and the risks involved.
- Authorized individuals to initiate trades or transfers and related processes.

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Policy-Related Internal Control Examples

Budget and Financial Reporting

- Budget transfers properly recorded and approved.
- Transactions recorded in accordance with applicable policies and rules.
- Transactions are carried out by the appropriate authorized individuals within the entity.

Grants

- Grant funds utilized in compliance with applicable laws, regulations, terms, etc.
- Assets purchased/constructed/developed with grant funds are safeguarded properly.
- Financial reports required by grants are accurate and timely.

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Role of Internal Audit

Independent assurance

Advisory role

Safeguards resources

Example: CA 2022 UI fraud $20B

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Get Started on Your Policy, Procedures, and Internal Controls Evaluation and Updates

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What Next?

- Consult the GFOA best practices library.
- Determine what the right balance between policy, procedures, and flexibility is for your agency.
- Seek example policies and procedures from organizations with a strong policy framework.
- Use your professional network and engage experts when necessary or beneficial.
- Develop a standard framework for your policy and procedures library.
- Start with what's most important and build on that foundation as time permits.

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How Can Eide Bailly Help?

- Eide Bailly provides a variety of policy – and internal controls-related assistance to our clients:

  - Internal controls assessments.

  - Organizational risk assessments.

  - Policy and procedures gap analyses.

  - Organizational assessments.

  - Operational assessments.

  - Policy and procedures development.

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Governing the future – Digital Transformation / Process Optimization and Smart Contracts in Public Service

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Session Objectives

What is blockchain?

What is artificial intelligence?

How can both be used in accounting and auditing?

Real examples in government

Disruptive technology and the impact on jobs

Lessons learned

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What is driving digital transformation or optimization?

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Retirement and Turnover Trends for State and Local Government Employees

- **Federal Government**
  - 30% of federal employees are expected to be eligible for retirement within the next five years.
- **State and Local Governments**
  - While specific percentages for state and local government employees are less frequently reported, it is known that a significant portion of the workforce is nearing retirement age. For example, in some states, up to 25-30% of the workforce is expected to retire within the next five years.
  - These trends highlight the need for strategic workforce planning to address potential staffing shortages and ensure continuity of services.
- **Increased Turnover:** The annual quit rates in the public sector have seen a significant increase, rising from 6.1% in 2010 to 11.7% in 2020. This trend has been driven by factors such as burnout, stress from the COVID-19 pandemic, and a desire for better pay.
- **Retirement Surge:** Many state and local governments are experiencing a "gray tsunami" of retirements as older employees reach the end of their careers. This has led to staffing shortages and increased reliance on retirees to fill gaps.

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The Potential Impact of Blockchain on the Financial Statement Audit and the Assurance Profession

Source: AICPA Executive Summary

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WHAT IS BLOCKCHAIN?

A decentralized, distributed digital ledger that records transactions across many computers. <u>This structure ensures that any involved block cannot be altered retroactively without altering all subsequent blocks, allowing participants to verify and audit transactions independently and relatively inexpensively.</u>

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Key features and benefits of blockchain in government

- **Enhanced Security**
  - o **Data Integrity:** Blockchain's cryptographic algorithms ensure that once data is recorded, it cannot be altered without detection. This makes it highly resistant to tampering and fraud.
  - o **Decentralization:** By distributing the ledger across multiple nodes, blockchain eliminates single points of failure, making it more secure against cyber-attacks.
- **Increased Transparency:**
  - o **Public Access:** Blockchain allows for the creation of public records that are accessible to all, increasing transparency in government operations.
  - o **Auditability:** Every transaction is recorded and time-stamped, creating a clear and immutable audit trail that can be easily verified by anyone.
- **Efficiency:**
  - o **Streamlined Processes:** Blockchain can automate and streamline administrative processes, reducing the need for intermediaries and paperwork.
  - o **Cost Reduction:** By reducing the need for manual verification and reconciliation, blockchain can significantly cut down operational costs.
  - o **Speed:** Transactions can be processed more quickly compared to traditional methods, which often involve multiple steps and intermediaries.
- **Trust and Accountability:**
  - o **Immutable Records:** The unchangeable nature of blockchain records builds trust among citizens, as they can be confident that the information is accurate and has not been tampered with.
  - o **Smart Contracts:** These self-executing contracts with the terms of the agreement directly written into code can ensure compliance and accountability in government transactions.

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EVOLUTION OF BLOCKCHAIN: SMART CONTRACTS

- What are Smart Contracts?
  - Computer code stored on a blockchain
  - Executes actions under specified circumstances.
  - Enable counterparties to automate tasks usually performed manually through a third-party intermediary (e.g., monitoring and enforcement of contractual promises within the contracting process).
  - Goals
    - Speed up business processes
    - Reduce operational error and settlement times
    - Improve cost efficiency
- **Tokenization:** Governments are exploring blockchain to support asset registries such as land and corporate shares.

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Example of Smart Contracts

- Example
  - Government uses a smart derivative contract
    - Hedges the price of oil for DPW at the end of the year.
    - Upon, contract is appended to the blockchain
    - Funds are held in escrow
    - Registered on a blockchain.
  - Year End - Smart contract records the price of oil
    - Referencing a trusted source defined in the smart contract (known as an "oracle"),
    - Calculate the settlement amount, and
    - Transfers funds

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Audit of smart contracts

- Acceptance **_may_** constitute sufficient appropriate audit evidence for occurrence

  - **_May_** or **_may not_** provide sufficient appropriate audit evidence related to the nature of the transaction

- Transaction **_may_** be

  - Unauthorized, fraudulent or illegal

  - Executed between related parties

  - Linked to a side agreement that is "off-chain"

  - Incorrectly classified in the financial statements.

- Many transactions recorded in the financial statements reflect estimated values that differ from historical cost.

- Auditors will still need to consider and perform audit procedures on management's estimates, even if the underlying transactions are recorded on a blockchain.

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How Audit and Assurance Might Evolve with Blockchain

- Blockchain technology offers

  - Opportunity to streamline financial reporting and audit processes.

  - Auditor could have near real-time data access via read-only nodes on blockchains.

  - May allow an auditor to obtain information required for the audit in a consistent, recurring format.

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HOW AUDIT AND ASSURANCE MIGHT EVOLVE WITH BLOCKCHAIN

- Audit could be more efficient:
  - Eliminates many of the manual data extraction and audit preparation activities.
  - Speeds up audit preparation activities could help reduce the lag between the transaction and verification dates.
  - Reduced lag time could increase the efficiency and effectiveness of financial reporting
  - Enables management and auditors to focus on riskier and more complex transactions while conducting routine auditing in near real time.

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How Audit and Assurance Might Evolve with Blockchain (cont.)

- Deploys more automation, analytics and machine-learning capabilities
  - Automatically alerts relevant parties about unusual transactions on a near real-time basis.
- Supporting documentation, such as contracts, agreements, purchase orders, and invoices could be encrypted and securely stored or linked to a blockchain.
- Unalterable audit evidence obtained - improved pace of financial reporting and auditing.
  - Every transaction is recorded and time-stamped, creating a clear and immutable audit trail that can be easily verified by anyone.
- Still must apply professional judgment when analyzing accounting estimates and other judgments made by management in the preparation of financial statements.
- Auditors will also need to evaluate and test internal controls over the data integrity of all sources of relevant financial information.

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WHAT IS ROBOTIC ▶▶▶ PROCESS AUTOMATION (RPA)?

Robotic Process Automation (RPA) is defined as a form of business process automation technology that uses software robots, or "bots," to automate repetitive tasks typically performed by humans. These tasks can include data extraction, form filling, file movement, and other routine office activities.

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WHAT IS THIS THING CALLED AI?
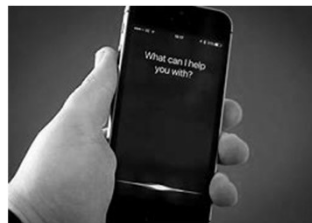
106

Artificial Intelligence – a historical perspective
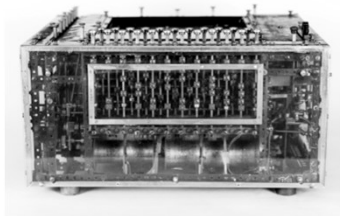
1932 – Georges Artsrouni's "mechanical brain"

1940's – Ford factory first robotics

1968 – MIT professor creates the first chatbot

2011 – Apple introduces "Siri"

2022 – ChatGPT from OpenAI

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Artificial Intelligence Defined

Narrow	Deep	General	
• Focused capabilities • Specific tasks or problems	• Computers learning from data • Human interaction to determine results	• Human-like intelligence • Ability to understand learn and apply	Intelligence is the capacity of acquire knowledge and apply it to achieve an outcome. "Artificial intelligence is a machine's ability to perform the cognitive functions we usually associate with human minds." – McKinsey & Company
• Chatbots • Facial Recognition • Siri, Alexa, Google	• Photo Enhancement • Self driving cars • ChatGPT	• Aspirational	

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Why should we use AI?

Automate Repetitive Tasks: Frees up time for accountants to focus on more strategic activities that require human judgement.

Faster Processing Times: AI can process large volumes of data much quicker than humans.

Enhanced Accuracy: Automation decreases the likelihood of mistakes that can occur with manual entry.

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Government - AI Investments

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1 **Enhanced Clinical Effectiveness for Public Healthcare**
GenAI tools are leading the way to improve the effectiveness and efficiency of healthcare providers.
https://www.healthcareitnews.com/news/ai-and-public-health-major-opportunity

2 **Improved fraud detection and compliance**
The Internal Revenue Service modernization plan has identified AI as a tool to strengthen organizational agility and streamline processes.
https://www.irs.gov/newsroom/irs-modernization

3 **Predictive Maintenance**
City of Chicago has many Smart City initiatives: AI is used to predict maintenance for city infrastructure and to predict which food establishments were at most risk for violations and prioritize inspections. Inspectors found critical violations faster.
https://www.chicago.gov/city/en/sites/chitech/home/it-strategy/data-driven-city.html

4 **AI Enabled Chatbots**
Virtual Assistants provide information without waiting on hold for a live agent
'Miles' - California DMV. https://www.dmv.ca.gov/portal/chat-bot/

'Texas by Texas' – personal portable government assistant

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Disruptive Technology and it's impact on jobs

Job Automation: Routine tasks are increasingly being automated by AI, which may reduce the need for certain roles in data processing, and transaction-heavy functions.

Skill Development: Employees will need to upskill, focusing on tasks that require human judgment, creativity, and oversight, as well as managing and interpreting AI outputs.

Transformation of Roles: AI will create new roles, such as data analysts, AI trainers, and cybersecurity specialists.

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Demo

Microsoft Copilot

Guidebook to the Bipartisan Infrastructure Law | Build.gov | The White House

459 Page Guidebook

https://www.whitehouse.gov/wp-content/uploads/2022/05/BUILDING-A-BETTER-AMERICA-V2.pdf

386 Rows of Guidebook Data

https://www.whitehouse.gov/wp-content/uploads/2023/02/20240119-build-gov-guidebook.csv

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Assess Your Readiness

Data Quality & Availability
- *"It takes high quality & organized data to feed your AI ambitions!"*

Security
- *"Is your organization's private data feeding ChatGPT?"*

Governance
- *"Do you have a solid plan for changing business conditions?"*

Quick Wins
- *"Where can deployment of AI have an immediate impact?"*

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Artificial Intelligence (AI)

- AI is the theory and development of computer systems able to perform tasks that normally require human intelligence. Because AI technologies—also called cognitive technologies—extend the power of information technology to tasks traditionally performed by humans, they enable users to break prevailing tradeoffs between speed, cost, and quality.
- Automating tasks:
  - evidence gathering
  - document review
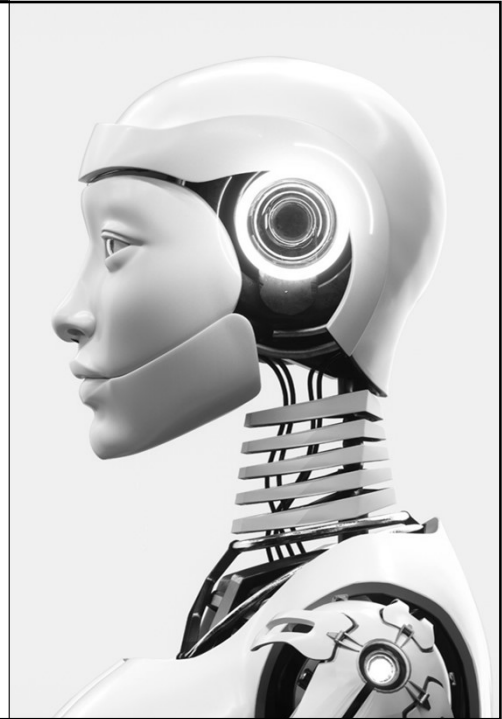
115

AI Advantages for auditors

- Automate the document review process for enhanced quality and delivery of insights to audit committees faster:
  - Natural language processing (NLP) technology reads and understands key concepts in the documents. Machine-learning technology trains the system on a set of sample contracts so it learns how to identify and extract key terms.
  - Review and assess larger samples—even up to 100% of the documents in a fraction of the time.
  - Makes it possible to do lightning-fast analytics—automating the separation of documents that contain escalation clauses from those that don't, for instance, and visualizing the degree of variability from a standard form across a population of documents.

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AI Advantages for auditors (cont.)

AI could expand workflow automation technology

- Streamline the confirmations process - provides stakeholders with a single digital environment to prepare, authorize, distribute, collect, manage, and evaluate the results.

Future state:

- Machine learning could be used to recognize, extract, and process values from the many supporting documents typically attached to a confirmation,
- Automatically confirms the transaction without significant auditor intervention.
- NLP could enable the system to handle anomalies and exceptions automatically by reading and understanding free-form textual responses from counterparties and recommending appropriate action.

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# Machine Learning and Natural Language Processing
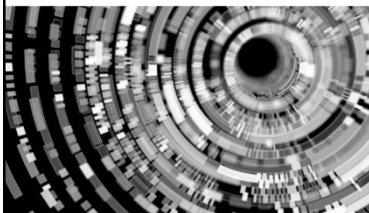
- Could make it possible to scan draft financial statements
  - Suggest risks associated with the text while linking disclosures to bond rating reports, and
  - Social media sentiment.
- For entities with material inventory (public healthcare, DPW etc.) - might change the inventory count process:
  - Auditors are now equipped with tablet and smartphone applications that collect and automatically consolidate inventory count results in real-time
  - Automatically identify and count items, spot patterns, and flag anomalies
- Evolve the audit process by making it smarter, more insightful, and more efficient.

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"The robots are not just coming, they are already here"

- https://www.journalofaccountancy.com/newsletters/2018/apr/robots-already-
  here.html?utm_source=mnl:globalcpa&utm_medium=email&utm_ca
  mpaign=09May2018
- Many technology companies are using machine learning principles in
  their accounting software to handle tasks that are repetitive and
  predictable, reducing the time accountants spend on those tasks.
- At the enterprise accounting level, assurance leaders at PwC envision a
  future where, with 100% of data available for analysis — as opposed to
  select samples — auditors will be able to leverage AI and machine
  learning to study a business in its entirety.

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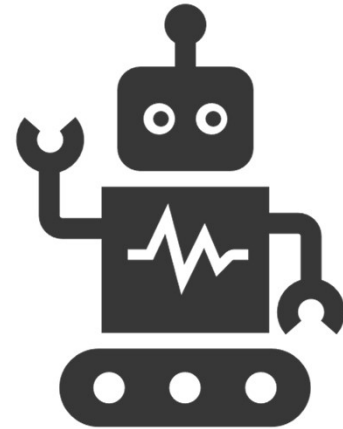
119

"The robots are not just coming, they are already here"

- The timesaving implications of AI and machine learning are extraordinary.
  - e.g., AI-based systems are cutting hours required to manually review contracts in the
    finance industry, *The Economist* reports.
- As AI and machine learning advance, more and more of an accountant's
  traditional tasks may be taken on by robots.
  - The work activities that are *less susceptible* to automation include tasks that involve
    human connection, emotional intelligence, and complex analysis such as managing
    others, applying expertise, and interacting with stakeholders.

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"The robots are not just coming, they are already here"

It's important to cultivate a cultural mindset that sees this new technology as an opportunity — not a threat.

The use of AI and machine learning will increasingly give you the gift of time. You'll no longer need to spend as much time entering and processing data.

Even when computers give your clients the financial data they need, they still lack the time and expertise to truly understand it and make changes in their businesses and lives to create better financial outcomes.

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"The robots are not just coming, they are already here"

- Auditors can start by doing the following four things:
  - Identify areas to replace with technology so that you can free up more time to offer additional advisory services.
  - Remain up-to-date on the latest technology developments to not only identify the best solutions for your organization, but also to be able to educate your clients when they come to you with questions.
  - Productize your services. Establish a process for how you deliver services, so you know your costs and efficiencies.
  - Build the soft skills and the analytical skills to create long-lasting client relationships, not just the technical expertise.

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REAL EXAMPLES

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CHICAGO/COOK COUNTY EXAMPLES

- http://www.governing.com/topics/mgmt/gov-blockchain-technology-government-services.html
- Illinois Blockchain Initiative kicked off late 2016 and counts six state and local government agencies among its founding members: Cook County Recorder of Deeds.
- Details: Uses blockchain technology for secure and transparent land title registration
- Main goals were threefold:
  - ensure thoughtful and light-touch governance to the technology;
  - support building out the blockchain ecosystem from an economic development perspective; and
  - promote government integration of the technology itself.

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Chicago/Cook County Examples

- Cook County Recorder of Deeds' office had already begun its own blockchain pilot program.
- County put roughly 2,000 vacant Chicago properties on the blockchain so that the system could prevent scammers from illegally selling houses they don't own.
- Outcome: Reduced fraud and increased efficiency in property transactions.
- Scalable if
  - Counties unify the way they enter property information.
  - Doing so would ultimately save homebuyers and homeowners millions of dollars as there would no longer be a need for them to buy title insurance.
  - On a blockchain, the chronology of ownership and claims on the land are all there for anyone to see.

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Chicago/Cook County Examples

- Four other government pilot programs focused on putting academic credentials, birth records, health provider registries and an energy credit marketplace on a blockchain
- Possible workforce concerns:
  - Making records seamless has the potential to eliminate jobs.
  - Land title insurers have some objections to being made obsolete in Illinois by blockchain.
  - The technology in financial services industry could kill the processing and verification jobs.
  - Similar back-office jobs in government (data entry work) could be rendered obsolete, but the technology creates a larger opportunity for high-level jobs -- and more of them.
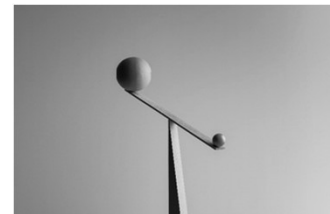
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Other State Government Examples

Nevada

Took steps to encourage use of the technology by banning blockchain taxes.

Arizona

Passed a law legally recognizing signatures recorded on a blockchain and smart contracts.

Delaware

Passed a law allowing companies to use blockchain technology to store and transfer securities and communicate with shareholders.

Move is expected to increase transparency in the shareholder voting process and automate the annual report and franchise tax filings in Delaware.

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Could use smart contracts in SBITAs or Leases

Typical SBITA….

Task Order No. 3

1.0   Service Objective

CONTRACTOR will provide hardware, software, and services for all IT infrastructure including but not limited to servers, storage, Voice Over IP (VOIP), computer networks, and security systems required by the DISTRICT for its new headquarters located at [   ], as well as for the DISTRICT'S disaster recovery co-location facility located in [   ]

The services ("Services") and materials ("Materials") to be delivered are defined in Sections 2 and 3 of this Task Order and will be provided by VENDOR for FIXED PRICE as detailed in Section 6 of this Task Order.

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Could be used to identify milestones, components…

Typical SBITA….

2.3 **Server and Storage Implementation**: CONTRACTOR will analyze the DISTRICT'S new design for the server and storage equipment, support, licensing and/or software

Page 1 of 238 ◄─────────────

with NET 30 terms.

Table 1: Payment Milestones

Milestone	Description	Percent
3.3	All, or substantially all, equipment items listed in Attachment B have been received at DISTRICT delivery locations and CONTRACTOR provides an inventory report to DISTRICT in MS word format listing all equipment received and separately listing any equipment not yet received.	60%

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COULD BE USED TO IDENTIFY MILESTONES, COMPONENTS…

- Components could be identified including:
  - Networking
  - Hardware (storage, cabling)
  - Project management
  - Engineering
  - Security
  - Communications
  - Vendor management
  - Software

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Other practical uses in public sector

- Anything contractual
  - Grants
  - Leases
  - SBITAs
  - Public – Private and Public – Public Partnerships and Availability Payment Arrangements
  - Purchases / Acquisitions / Sales of capital assets
  - Vendor / consultant agreements with different tasks
  - Certain investments (derivatives)
  - Debt transactions with compliance

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DISRUPTIVE TECHNOLOGY AND IMPACT ON JOBS

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Key impacts of these disruptive technologies and tools

- **Job Displacement and Creation**
  - **Automation of Routine Tasks:** Many repetitive and manual tasks are being automated, leading to job displacement in areas such as data entry, basic accounting, and administrative roles.
  - **New Job Opportunities:** These technologies are also creating new roles in fields like data science, AI ethics, blockchain development, and cybersecurity. For example, the demand for AI specialists and blockchain developers has surged.
- **Skill Shifts**
  - **Technical Skills:** There is an increasing demand for technical skills related to AI, machine learning, and blockchain. Workers need to upskill or reskill to stay relevant.
  - **Soft Skills:** As automation takes over routine tasks, there is a growing emphasis on soft skills such as critical thinking, creativity, and emotional intelligence.
- **Enhanced Productivity**
  - **Efficiency Gains:** AI and machine learning can analyze vast amounts of data quickly, leading to more informed decision-making and increased productivity.
  - **Innovation:** These technologies enable new business models and innovations, driving economic growth and creating new industries.

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Key impacts of these disruptive technologies and tools (cont.)

- **Job Quality**
  - **Improved Job Satisfaction:** By automating mundane tasks, employees can focus on more strategic and fulfilling work, potentially improving job satisfaction.
  - **Work-Life Balance:** AI and automation can also contribute to better work-life balance by reducing the workload and allowing for more flexible working conditions.
- **Economic Disruption**
  - **Sectoral Shifts:** Some sectors may experience more disruption than others. For instance, manufacturing and logistics are seeing significant automation, while sectors like healthcare and education are adopting AI to enhance service delivery.
  - **Regional Variations:** The impact of these technologies can vary by region, depending on the local economy's reliance on certain industries and the availability of skilled labor.
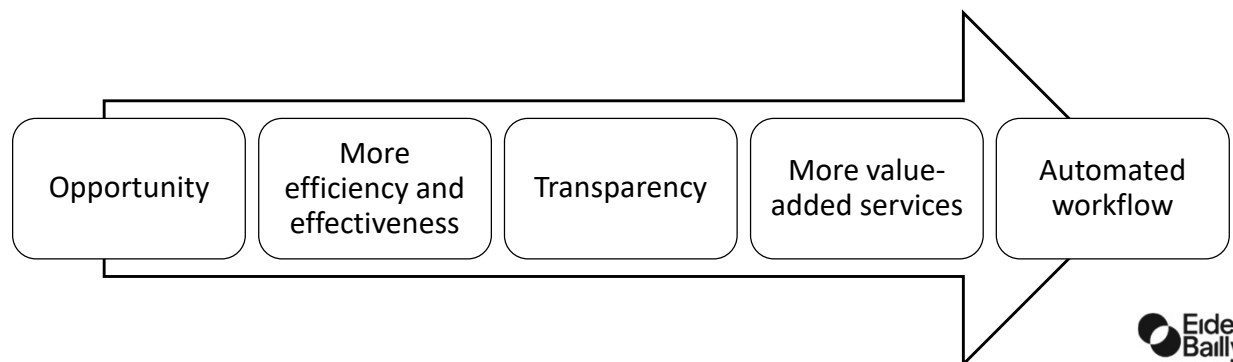- **Policy and Regulation**
  - **Regulatory Challenges:** Governments need to develop policies to manage the transition, including retraining programs and social safety nets for displaced workers.
  - **Ethical Considerations:** There are also ethical concerns related to AI and automation, such as bias in algorithms and data privacy, which need to be addressed.

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Captain Obvious wisdom

- Overall, while disruptive technologies pose challenges, they also offer opportunities for innovation, efficiency, and new job creation. The key is to manage the transition effectively through education, training, and supportive policies.

| Opportunity | More efficiency and effectiveness | Transparency | More value-added services | Automated workflow |

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►► LESSONS LEARNED

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Success stories and lessons learned

- **Blockchain Success Story: Illinois Blockchain Initiative**
    - **Application:** Land title registration.
    - **Outcome:** Improved security and efficiency in property transactions by creating a tamper-proof record of land titles.
    - **Lesson Learned:** Blockchain can significantly reduce fraud and streamline administrative processes in public records management.
- **AI Success Story: Los Angeles Predictive Policing**
    - **Application:** AI-driven predictive policing.
    - **Outcome:** Reduced crime rates and improved resource allocation by analyzing crime data to predict potential hotspots.
    - **Lesson Learned:** AI can enhance public safety by providing data-driven insights for better decision-making.
- **Machine Learning Success Story: Nebraska Department of Transportation**
    - **Application:** Asset management and safety.
    - **Outcome:** Improved maintenance scheduling and resource allocation by using machine learning to analyze infrastructure data.
    - **Lesson Learned:** Machine learning can optimize infrastructure management, leading to cost savings and improved service delivery.

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Success stories and lessons learned (cont.)

- **Smart Contracts Success Story: Ohio Public Procurement**
    - **Application:** Automating public procurement processes.
    - **Outcome:** Reduced fraud and increased efficiency by using smart contracts to automate contract execution and compliance.
    - **Lesson Learned:** Smart contracts can enhance transparency and accountability in government procurement.
- **Robotic Process Automation (RPA) Success Story: New York Power Authority (NYPA)**
    - **Application:** Finance and HR processes.
    - **Outcome:** Automated invoice processing and HR workflows, leading to significant time and cost savings.
    - **Lesson Learned:** RPA can streamline administrative tasks, allowing employees to focus on more strategic activities.
- These examples demonstrate the transformative potential of these technologies in improving efficiency, transparency, and service delivery in state and local governments. Each implementation provides valuable insights into the benefits and challenges of adopting new technologies in the public sector.

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Challenges and Potential Drawbacks

- **Blockchain**
  - **Technological Limitations:** Issues such as scalability and high energy consumption can hinder widespread adoption.
  - **Regulatory and Legal Hurdles:** Ensuring compliance with existing laws and regulations can be complex, especially regarding data protection and legal recognition.
  - **Security Risks:** While blockchain is secure, smaller ledgers can be susceptible to manipulation, and there are concerns about the 51% attack where a majority of the network could be controlled by a single entity.
  - **Resistance to Change:** Building trust among stakeholders and overcoming resistance to new technology can be significant barriers.
- **AI and Machine Learning**
  - **Data Privacy and Security:** Handling sensitive data securely and ensuring privacy is a major concern.
  - **Bias and Fairness:** AI algorithms can perpetuate or even exacerbate biases present in the data they are trained on, leading to unfair outcomes.
  - **Skill Gaps:** There is a shortage of specialized talent needed to develop and manage AI systems.
  - **Ethical Concerns:** Ensuring that AI is used ethically and transparently is crucial, as unintended consequences can have significant impacts.

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Challenges and Potential Drawbacks (cont.)

- **Smart Contracts**
  - **Legal Ambiguity:** The legal status of smart contracts can vary by jurisdiction, creating uncertainty about their enforceability.
  - **Complexity:** Implementing smart contracts requires a high level of technical expertise, and errors in the code can lead to significant issues.
  - **Lack of Flexibility:** Once deployed, smart contracts are difficult to modify, which can be problematic if laws or regulations change.
- **Robotic Process Automation (RPA)**
  - **High Initial Costs:** The total cost of ownership for RPA solutions can be high, including implementation and ongoing maintenance.
  - **Limited Scope:** RPA is best suited for repetitive, rule-based tasks and may not handle complex processes well.
  - **Integration Challenges:** Integrating RPA with existing systems can be difficult and may require significant changes to current workflows.
  - **Job Displacement:** Automation of routine tasks can lead to job losses, requiring strategies for workforce reskilling and transition.
- These challenges highlight the need for careful planning, stakeholder engagement, and robust regulatory frameworks to ensure the successful implementation of these technologies in government.

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Questions?

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Effective Governmental Audit Preparation & Management

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Class Purpose & Objective

Purpose:

- To equip city finance staff and leadership with practical tools, strategies, and insights to prepare for and manage the annual audit process with confidence, efficiency, and collaboration.

By the end of this session, participants will be able to:

1. Understand the audit lifecycle.
2. Prepare effectively before auditors arrive.
3. Support a smooth and efficient fieldwork process.
4. Build a positive, productive relationship with auditors.
5. Apply practical tools and checklists.
6. Explore leveraging technology solutions for a smoother audit process.
7. Leave with actionable takeaways.

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Why Audit Readiness Matters

Importance of timely and clean audits.

Impact on public trust, bond ratings, and compliance.

Financial transparency and accountability.

Common audit challenges in local government.

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Understanding the Audit Lifecycle

"If you know the auditors and know yourself, you need not fear the fiscal year-end."

– Sun Tzu (probably)

- Audit lifecycle:
  - Planning→ Fieldwork → Reporting
- Key milestones and deliverables.
- Setting realistic timelines and scheduling.

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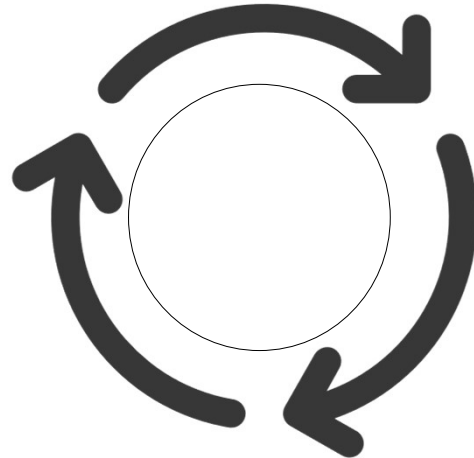
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Pre-Audit Preparation Tips: Organize Your Documentation

- Trial balances, reconciliations, schedules.
- Prior year audit adjustments.
- Supporting documentation for key balances.
- Leverage existing month-end/year-end checklists.

HELPFUL TIPS

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PRE-AUDIT PREPARATION TIPS: COMMUNICATE EARLY & OFTEN

- Meet with auditors before fieldwork.
- Clarify expectations, deadlines, and deliverables.
- Assign internal responsibilities.
- Schedule update/check-in meetings.
- Address potential issues proactively:
    - Proactive vs reactive.

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PRE-AUDIT PREPARATION TIPS: CHECKLISTS AND CALENDARS

- Year-end close checklist.
- Audit prep calendar with deadlines.
- Consistent templates for common areas:
    - Capital Assets.
    - Long-Term Debt.
    - Balance Sheet reconciliations.
- Regular internal meetings/check-ins to assess status and audit readiness.

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During Fieldwork: Set the Stage for Success

- Designate a point of contact and standard for information flow.

- Provide a quiet, organized workspace.

- Ensure IT access and data availability:

  - ERP system – Be sure to provide "how to" document for common areas.

  - Auditor portal.

- Make staff aware of audit timeline and prepare staff for auditor

  interactions.

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During Fieldwork: Be Responsive and Transparent

- Respond to requests promptly:
  - As general rule, try to turn around requests within 24 hours. If the full request is not available by that time, at least provide update and timeline for expected completion.
  - This is where read-only access to the ERP system can be key in cutting down on response times.
- Don't hesitate to ask for clarification!
  - There may be more than one way to obtain the information the auditors need.
- Address any concerns immediately.

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During Fieldwork: Track Requests and Responses

Use a shared tracker/PBC list or audit portal.	Document what was provided and when.
Keep a record of all communications.	Avoid duplication and confusion.

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AVOIDING DELAYS AND PITFALLS: COMMON CAUSES OF DELAYS

- Incomplete or late-prepared schedules:
  - Why you need to start early!
  - Consider what work can be "pushed forward" to earlier in the year.
- Unreconciled accounts.
- Staff turnover or lack of training.
- Miscommunication with auditors.

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Avoiding Delays and Pitfalls: How to Stay on Track

Regular check-ins with auditors

Internal status updates

Escalate issues early
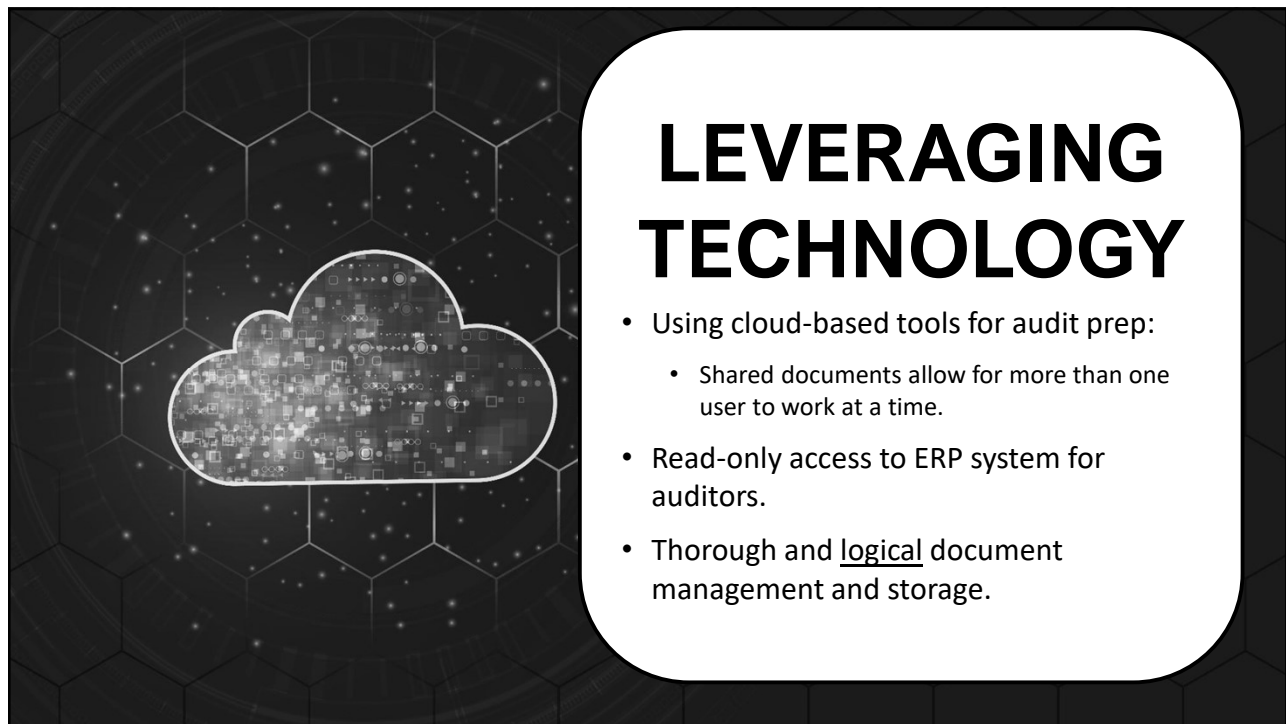
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BUILDING A POSITIVE AUDITOR RELATIONSHIP

- Not seeing auditors as the "bad guys":
  - Their job is to ensure accountability and accuracy.
  - Often do not want issues any more than you do.
- Encourage year-round documentation.
- Train staff on audit expectations.
- Celebrate audit successes.

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LEVERAGING TECHNOLOGY

- Using cloud-based tools for audit prep:
  - Shared documents allow for more than one user to work at a time.
- Read-only access to ERP system for auditors.
- Thorough and <u>logical</u> document management and storage.

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Final Tips & Takeaways

- Start early, stay organized, communicate often.

- Use lessons learned to improve next year:
  - After action reports, post-mortem analysis, etc.
  - What was helpful this year that we should keep doing?
  - What did we do later this year that we can start doing earlier next year?
  - What wasn't helpful that we can stop doing or tweak for next year?

- Keep a "post-audit" checklist.

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Questions?

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Executing MONTHLY tasks efficiently
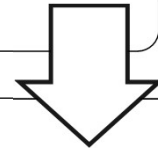
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Agenda

Executing Monthly Tasks Efficiently

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TWO steps for a successful month-end close

Month-End Checklist

*Reconcile "**Headache**" Balance Sheet Accounts throughout the year*

160

Tips – MONTH-END CLOSE checklist

- Every City's month-end checklist varies:
  - There is NO one size fits all.
- Review the year-end checklist and identify tasks that can be done monthly/quarterly/bi-annually:
  - Use the year-end checklist as your baseline.
- Quarterly Reports going to Council?
  - What revenues and expenditures should be included? Add those to the month-end checklist.
- Set a month-end closing target date – i.e., 15th of every month.
- Update the month-end checklist throughout the year.
- Include new GASB pronouncements and tasks associated with such implementation.
- Changes in laws, regulations, policies, procedures, operations.
- New funds, component units.

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Tips – MONTH-END CLOSE checklist (Continued)

- Align task/workpaper category with each Preparer:
  - Assignments of responsible staff are clearly set and communicated.
- Begin establishing a cross-training plan:
  - Be intentional on establishing a Back-Up Preparer that aligns with the areas.
- Common Month-End Tasks:
  - Bank Reconciliations.
  - Cash with Fiscal Agent Reconciliations.
  - Monthly Allocations.
  - Internal Service Charges.
  - Postage Charges.
  - Fixed Assets.
  - Balance Sheet Reconciliations.

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Tips – MONTH-END CLOSE checklist (Continued)

Indicate JE information/source for reference.

Reviewed documents should have a place for signing off (name and date reviewed).

Use the Comments section as much as possible detailing step by step and/or source of information.

Re-evaluate "headache" balance sheet accounts each year and add/remove items from checklist.

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RECONCILE "*HEADACHE*" BALANCE SHEET ACCOUNTS

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Cash

- Bank Reconciliations should be completed timely/monthly:
  - Set a regular schedule (and stick to it!).
  - Recommendation:
    - Complete all bank recs within 4 weeks of month-end:
      - Cash Receipt Deadline: 2 weeks after month-end.
      - Bank Recon Deadline: 2 weeks after cash receipts posted.
- Investigate and clear any outstanding reconciling items in a timely manner.
- Review should be documented/approved by management.
- Automate the process as much as possible.

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Cash

Key Benefits of Timely Reconciliations

- Detecting errors and fraud early.
- Improving cash flow management.
- Enhancing audit readiness.
- Ensuring accurate financial reporting.

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CASH

- Common Discrepancies:
  - Outstanding checks:
    - O/S Checks = Prior Month O/S + Checks Issued - Voids - Cleared Checks.
  - Deposits in transit (DIT):
    - Always confirm that the prior month's DITs clear as expected.
  - Bank fees or interest not recorded.
  - Errors in recording transactions.

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Cash

Common Pitfalls to Avoid

- Relying on daily cash spreadsheet.
- Ignoring small discrepancies.
- Delaying reconciliations.
- Lack of documentation.
- Not reviewing automated results.

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Investments

- Reconcile investment accounts timely:
    - Investment Activity monthly.
    - Interest Allocation at least quarterly.
- Update Investment Policy:
    - Make sure all investments adhere to the policy!
- Record GASB 31 market-value adjustments at year-end.
- Help your future self and make sure you have all pertinent informational reports required for financial reporting and footnote preparation:
    - Interest Rate Risk Footnote – Remaining Maturity.
    - Fair Value Investments Footnote – Level 1, 2, or 3.
    - Credit Risk Footnote – Moody's & S&P.
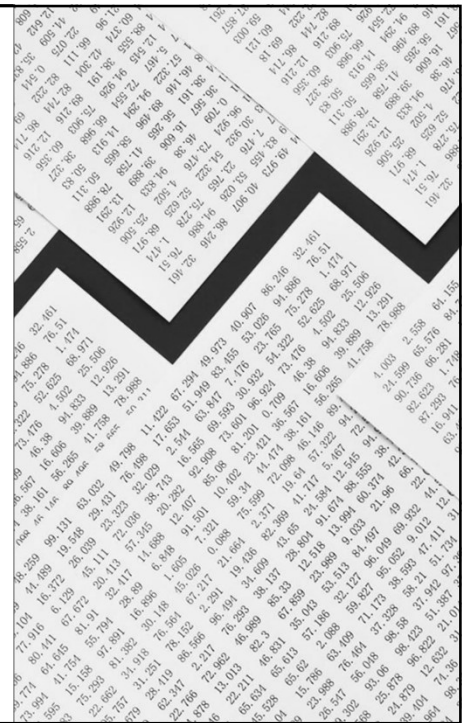
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Receivables

Based on year-end, identify the "headache" balance sheet accounts

- Subsidiary Ledgers for Account Receivable accounts.
- Subsidiary Ledgers/Schedules for Allowance for Uncollectible Accounts.
- Subsidiary Ledgers for Taxes Receivable.
- Subsidiary Ledgers for Accrued Interest.
- Subsidiary Ledgers for Lease Receivables.
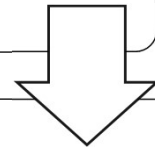- Subsidiary Ledgers for Notes and Loans Receivables.

Subsidiary Ledgers

- What makes up the balance?
    - Date, name, amount, document reference (invoice number, etc.), GL account number.
- Review prior year balances and investigate.
- Subsidiary Ledgers should have information to assist with Note Disclosures.

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Capital and right-to-use assets

Based on review, should be able to produce workpaper

- Complete additions and deletions throughout the year – do not wait until year-end!
- Prepare a roll forward schedule - just like the note to the basic financial statements for capital assets:
  - Beginning balance, Additions, Deletions, Transfers, Ending balance.
  - Ending balances should agree to general ledger and subsidiary ledger.
  - Current year additions and deletions schedules that tie back to the roll forward schedule:
    - Date, name, amount, document reference (invoice number, etc.), GL account number.
  - Consider obtaining CIP status on a biannual basis.

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Payables

Based on year-end, identify the "headache" balance sheet accounts

- Subsidiary Ledgers for Accounts Payable.
- Subsidiary Ledger for Accrued Payroll.
- Subsidiary Ledger for Interest Payable.
- Subsidiary Ledgers for Refundable Deposits.
- Subsidiary Ledger for Unearned Revenue.

Subsidiary Ledgers

- What makes up the balance?
  - Date, name, amount, document reference (invoice number, etc.), GL account number.
- Review prior year balances and investigate.

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What are the TWO steps for a successful MONTH-EnD close?

Month-End Checklist

*Reconcile "**Headache**" Balance Sheet Accounts throughout the year*

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Questions?

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Thank you

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