

What you need to know about the 2021 KMAAG

April 20 at 11:30 a.m. CT

Alicia Simon
Governmental assurance

Michelle Locke
Governmental consulting & outsourcing

Continuing education credits available

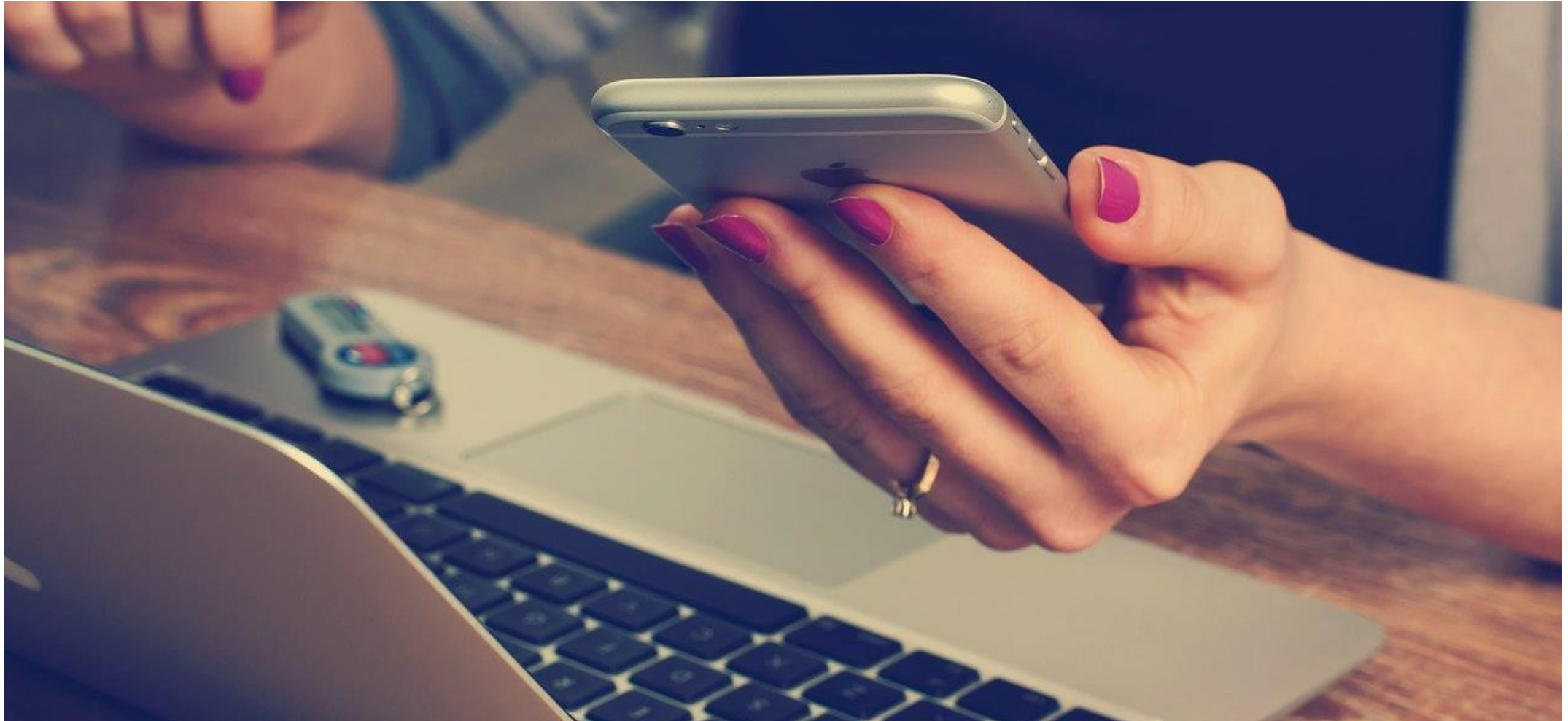
Please answer at least three polling questions.



Recording & slides will be available.



For best audio quality, call in by phone



Questions? Ask away!



Don't forget our survey





Alicia Simon

Alicia specializes in public sector accounting and auditing under Governmental Auditing Standards and Uniform Guidance.

Governmental clients include states, cities, counties and school districts.

Helps clients with up to \$500M in revenue and \$1B in assets.





Michelle Locke, CGFM

Michelle specializes in governmental accounting and auditing.

Prior experience as a controller and treasurer/finance manager for a city municipality.

Certified Government Financial Manager



Learning objectives

2021 KMAAG

Understand the audit and requirements

Internal controls

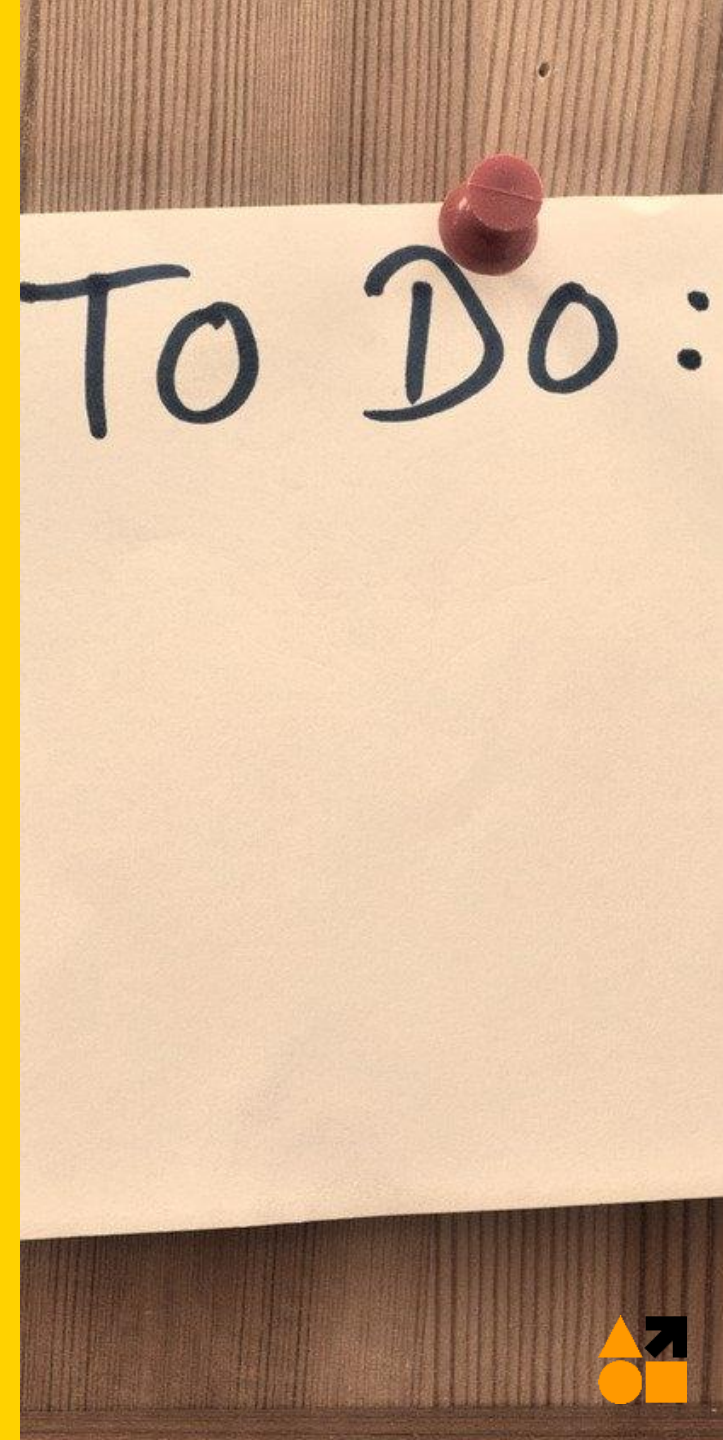
Understand the importance of internal control processes to mitigate fraud risk

Resources

Determine the best way to use your available resources

Preparation

Learn what you can do now to prepare for your audit



What to expect today

Today's presentation

KMAAG overview

How to prepare for your audit

Insights/examples from experience



Polling question # 1

Part 1

What is KMAAG?

Part 1: What is KMAAG?

- Kansas Municipal Audit and Accounting Guide
- Provides for the **option** of reporting under GAAP or simplified regulatory basis of accounting
- Applicable for **all** Kansas municipalities
- Defines audit requirements and identifies regulatory compliance requirements



Cash basis and budget laws

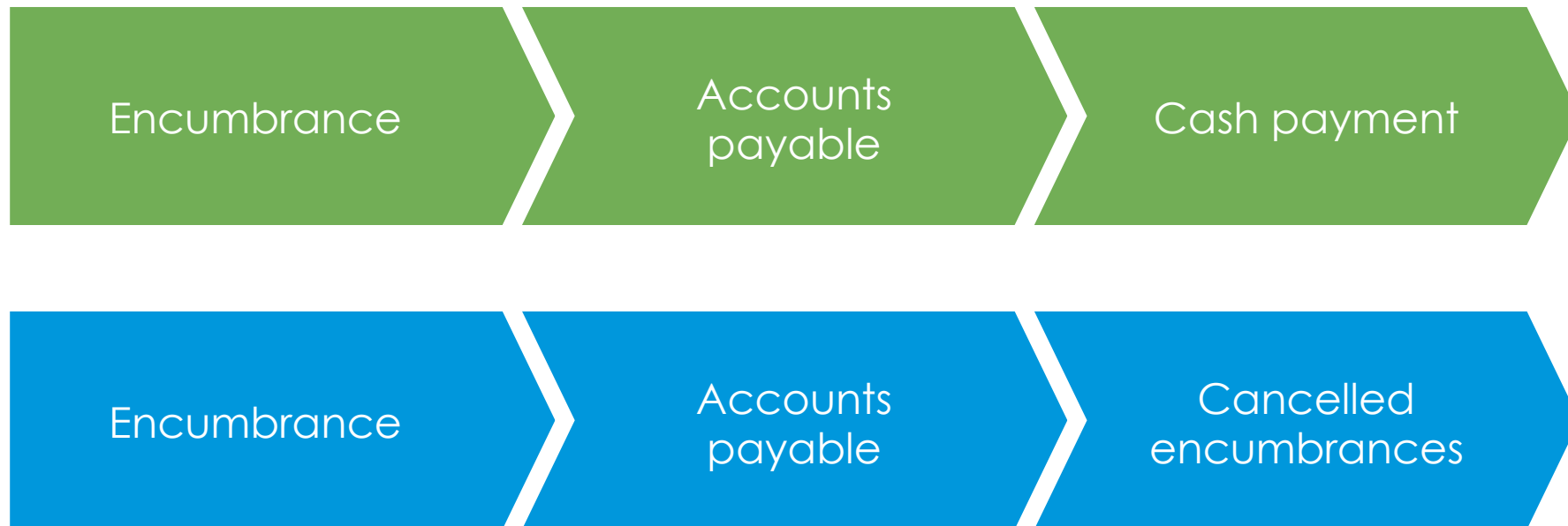
Definition

As used in the KMAAG, the term “regulatory basis of accounting” means accounting and financial reporting designed to demonstrate compliance with the Kansas Cash Basis Law and the Kansas Budget Law.

K.S.A. 10-1101 et seq. and K.S.A. 79-2925 respectively



The life cycle of an expenditure



What is regulatory basis?

Guide provisions

KMAAG allows for the option of using GAAP or simplified regulatory basis of accounting

GAAP waiver

GAAP waiver required if regulatory basis election is made

Compliance with statutes

Supports cash basis and budget law

Simplified accounting

Includes cash, investments, accounts payable and encumbrances



ANY MUNICIPALITY, KANSAS
Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 20XX

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
General Funds:	\$	\$	\$	\$	\$	\$	\$
General							
Supplemental General (1)							
Special Purpose Funds:							
Bond and Interest Funds:							
Capital Projects Funds:							
Business Funds:							
Trust Funds:							
Related Municipal Entities:							
Total Reporting Entity (Excluding Agency Funds)	\$	\$	\$	\$	\$	\$	\$
Composition of Cash:							\$
					Checking Account		
					Savings Account		
					Petty Cash		
					Municipal Investment Pool		
					Repurchase Agreements		
					Certificates of Deposit		
					Total Related Municipal Entities		
					Total Cash		
					Agency Funds per Schedule 3		() (2)
					Total Reporting Entity (Excluding Agency Funds)		\$

The notes to the financial statement are an integral part of this statement.

(1) Applies only to USDs
 (2) Must tie to Schedule 3 ending cash balance

ANY MUNICIPALITY, KANSAS
 Summary of Expenditures – Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 20XX

Funds (1)	Certified Budget	Adjustment to Comply with Legal Max (2)	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance- Over (Under)
General Funds:						
General						
Supplemental General (2)						
Special Purpose Funds:						
Bond and Interest Funds:						
Business Funds:						

(1) Only budgeted funds are to be listed

(2) Applies only to USDs

Regulatory basis resources



Appendix B

Recognition & measurement



Appendix C

Sample financial statements



Appendix D

Sample footnote disclosures



Appendix F

GAAP waiver procedures

KMAAG audit requirements

All-Funds Audit	Agreed Upon Procedures (AUP)	Utility Fund Audit
Any of the following: Gross receipts > \$500,000 GO bonds > \$500,000 Revenue bonds > \$500,000 Any USD, regardless of size	Gross receipts or bonded indebtedness of \$275,000 - \$500,000	Any outstanding revenue bonds



Regulatory compliance requirements

Appendix A1

All municipalities

Appendix A2

County

Appendix A3

City

Appendix A4

Unified School District or
Vocational Educational School

Appendix A5

Community college



APPENDIX A1
KANSAS REGULATORY COMPLIANCE CHECKLIST

GENERAL – FOR ALL MUNICIPALITIES

NOTE: STATUTES CAN BE LOCATED ON THE WEB AT

<http://www.kslegislature.org>

	Yes	No	N/A
1. Depositories designated for all public monies, and this action recorded in minutes. (K.S.A. 9-1401) (This designation is not required annually but is recommended whenever the governing body changes.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<hr/>			
<hr/>			
2. Deposits with statutorily authorized financial institutions adequately secured. (K.S.A. 9-1402 and K.S.A. 9-1405) (Public funds are required to be secured by one of the following methods: 1) a corporate surety bond of a surety company authorized to do business in Kansas in an amount equal to deposits less amounts insured by the federal deposit insurance corporation, or 2) pledging, assigning, and granting a security interest in securities defined in the statutes the market value of which is equal to 100% of total deposits.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Annual updates

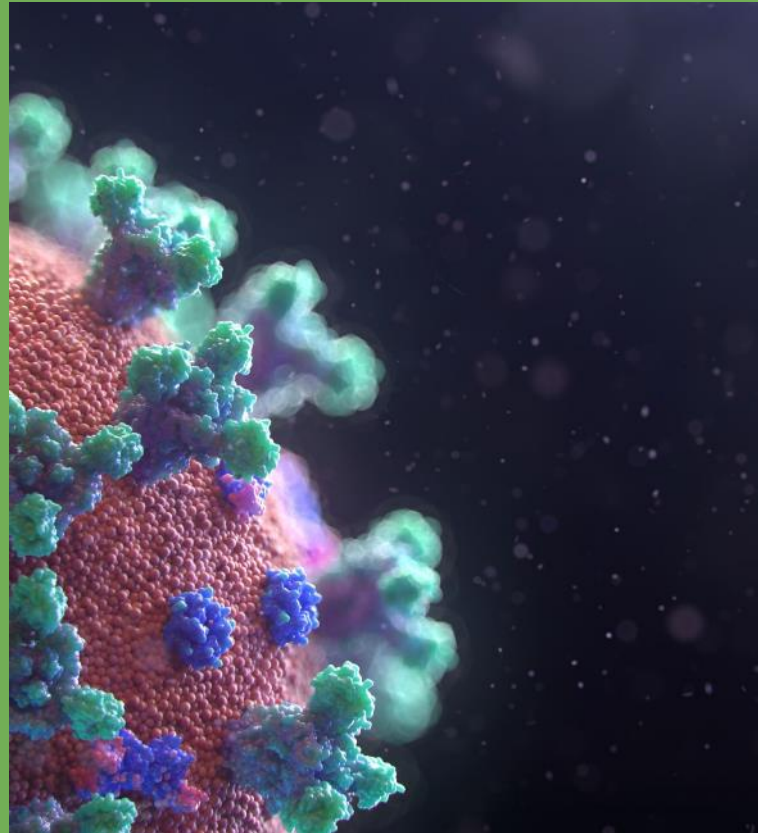
- Guide is reviewed annually by a board of editors
- Only relevant GAAP updates are incorporated
- Current guide supersedes all previous versions



2021 KMAAG updates



Leases



COVID-19



CRF and CARES Act funding



How to access the Guide

The **KMAAG** is available for purchase at https://www.kscpa.org/kansas_municipal_audit_guide



Polling question #2

Part 2

How to prepare for your audit

Part 2: How to prepare for your audit



Risk assessment & internal controls

Audit approach

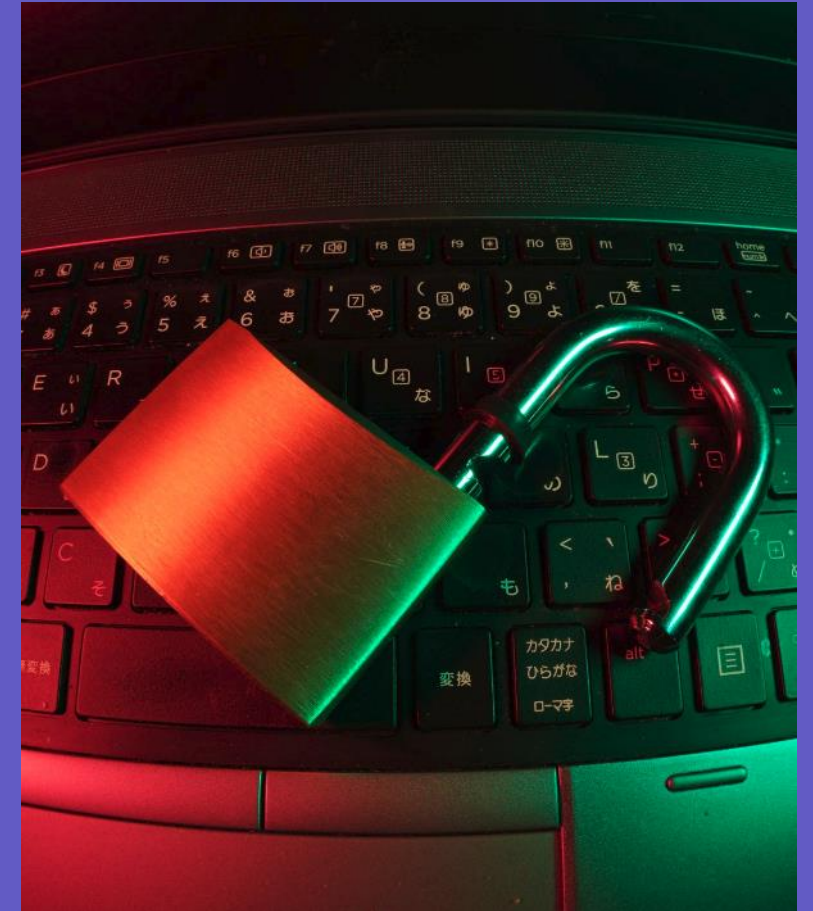
GAAS requires a **risk-based** approach

Ongoing monitoring

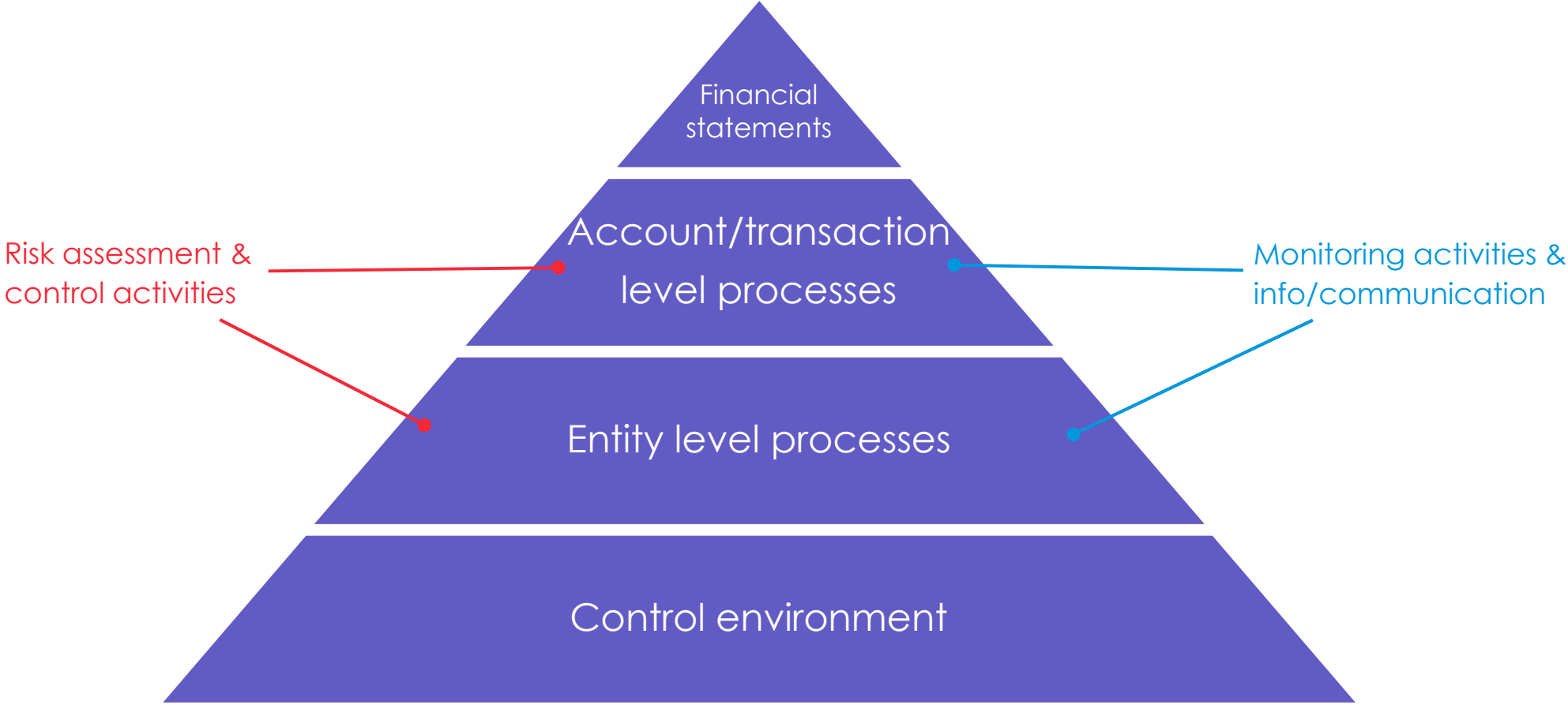
Throughout the year review and update internal controls and written procedures

Manage fraud and error risk

Protect your organization from the **risk of fraud or error**



Internal controls system



Main transaction cycles

Incoming

Revenue

Accounts receivable

Cash receipts

Outgoing

Expenditures

Accounts payable

Cash disbursements

Purchasing

Payroll

Planning

Capital assets

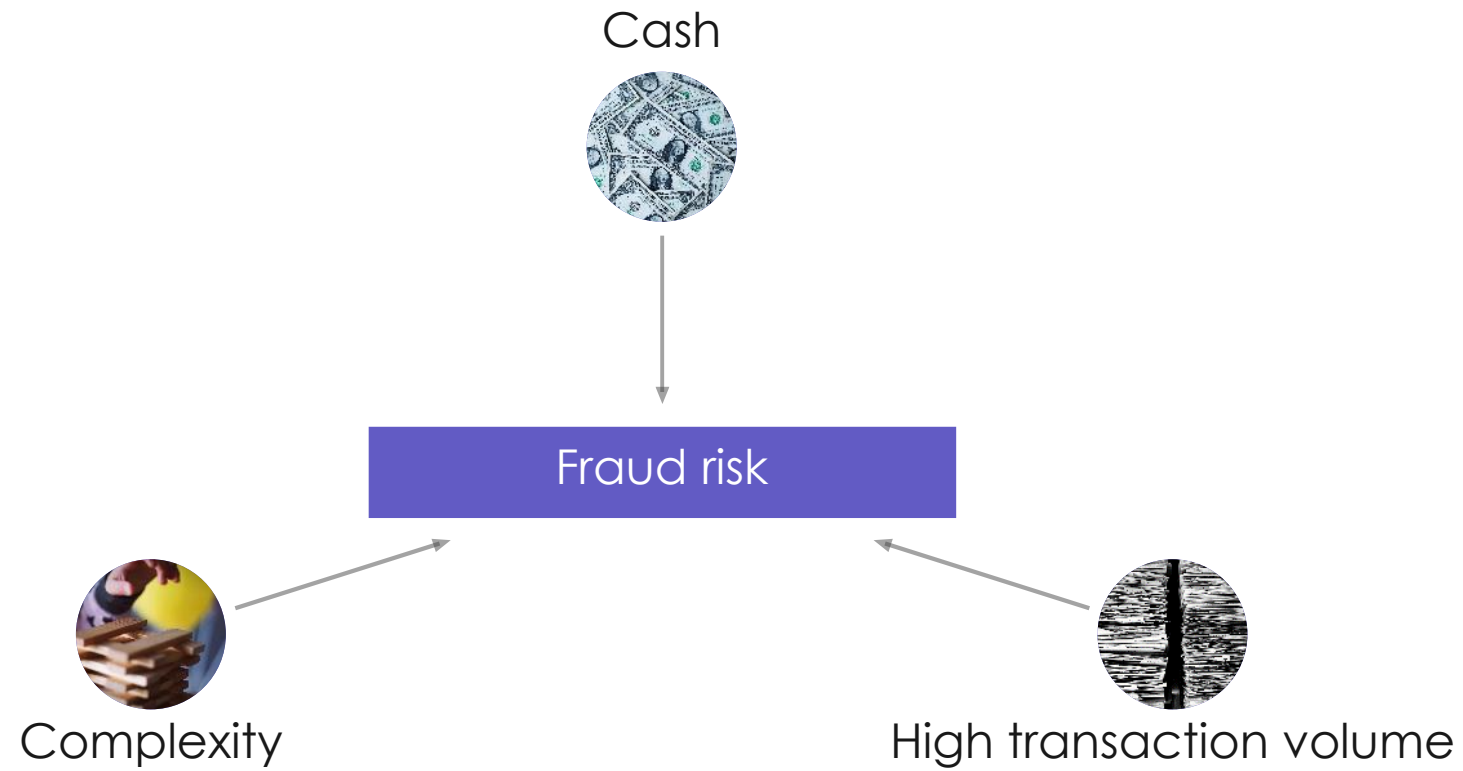
Long-term debt

Budgeting

Cash & investment
management



Risk factors



Documenting internal controls

What

Written policies and procedures

Why

Use procedure manuals for training purposes

When

Include a revision date



Documenting internal controls

Authorization

Who has authority to approve transactions?

Initiation & recording

How are needs communicated and how are transactions initiated in response to the need?

Processing

How do you ensure transactions are processed the way they are intended to be?

Reporting

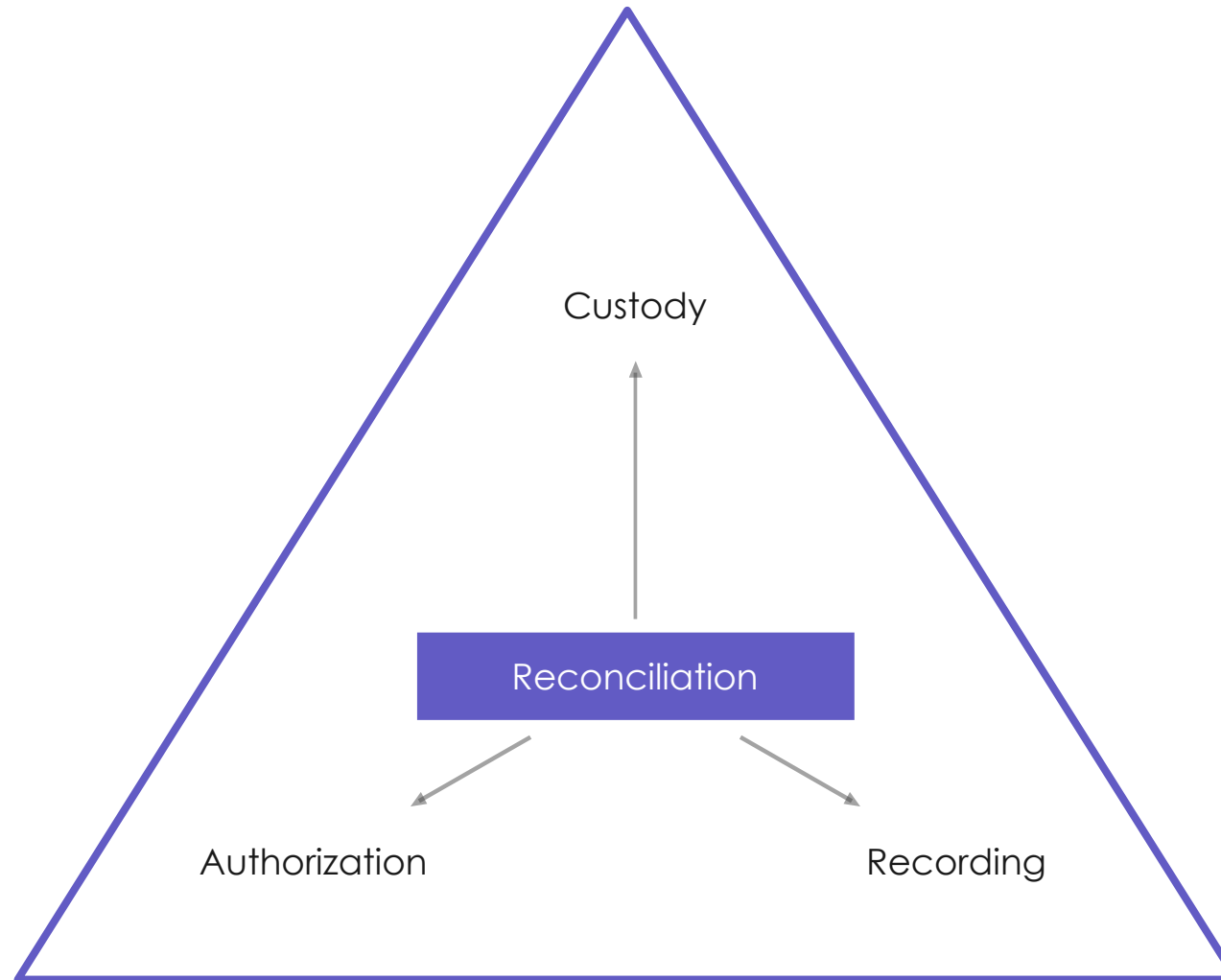
What information do internal and external users need?

Safeguarding

How do you protect access to sensitive data?



Segregation of duties



Example payroll control matrix

	Authorization	Custody	Recording
Maintain personnel files and employee master file data			HR clerk
Approve employee master file changes	Supervisors, HR director		
Approve timekeeping	Supervisors		
Process payroll and maintain payroll journal			Payroll clerk
Distribute payroll checks		Treasurer	



Extend capacity externally

- Service providers are an extension of existing organizational structure
- Management is responsible for the system of internal controls
- Service providers can relieve the burden on staff



Completeness check

The approach

Consider **main transaction** cycles

Consistent monitoring

Review and update internal controls and written procedures **throughout the year**

Complete checklists

Complete KMAAG regulatory **checklists**



Polling question #3

Year-end close

Communicate a closing schedule throughout the organization

Establish cutoff for AP and encumbrances

Record transfers

Book accruals



Encumbrances

- Represents a commitment to make a purchase
- Purchasing policies define requirements
- Establish an early cutoff date for processing



Accounts payable

Date	Accounting treatment
Approval date	Governing body approval (if required) would result in an encumbrance
Purchase order date	Could also result in an encumbrance if governing body approval is not required
Invoice date	Generally, not relevant unless no other information is available
Service date or service period	Record in accounts payable or allocate to service period
Ship date	If FOB shipping point, record in accounts payable
Delivery date	If FOB destination, record in accounts payable



Third-party information

- Pension
- OPEB
- Pollution remediation
- Landfill post-closure
- Insurance claims (IBNR)



Draft financial statements

1

Review trial balances

2

Reconcile balance sheet accounts to subsidiary ledgers

3

Make sure any new funds are included

4

Ensure any cash basis or budget violations are resolved



Footnotes

Certain disclosures are **required** by KMAAG, even if they are **not required** under GAAP. The KMAAG provides detailed descriptions and sample disclosures.



KMAAG **required** disclosures

- Financial reporting entity
- Regulatory basis fund types
- Basis of presentation and basis of accounting
- Budgetary information
- Compliance with finance-related legal and contractual provisions
- Deficit cash / unencumbered cash for individual funds
- Deposits & investments
- In-substance receipt in transit (school districts only)
- Capital projects compliance
- Long-term debt commitments
- Litigation contingencies
- Interfund transfers
- Other long-term obligations / commitments / pensions



Deposits and Investments

As of December 31, 20XX, the Municipality had the following investments and maturities (*list investments by type*).

Investment Type	Fair Value	Investment Maturities (in Years)		Rating U.S.
		Less than 1	1-2	
Treasury Notes	\$ xx,xxx,xxx	\$ x,xxx,xxx	\$ xx,xxx,xxx	N/A
Kansas Municipal Investment Pool	xxx,xxx	xxx,xxx	-	N/A
Total Fair Value	<u>\$ xx,xxx,xxx</u>	<u>\$ xx,xxx,xxx</u>	<u>\$ xx,xxx,xxx</u>	

K.S.A. 9-1401 establishes the depositories which may be used by the Municipality. The statute requires banks eligible to hold the Municipality's funds have a main or branch bank in the county in which the Municipality is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Municipality has no other policies that would further limit interest rate risk (*or if additional policies, define*).

K.S.A. 12-1675 limits the Municipality's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Municipality has no investment policy that would further limit its investment choices (*or define additional policy*). The rating of the Municipality's investments is noted above.

Concentration of credit risk. State statutes place no limit on the amount the Municipality may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The Municipality's allocation of investments as of December 31, 20XX, is as follows:

Keep smiling - maybe the auditor will forget about those reports she asked for yesterday



someecards
user card

Check your work!

- Analytical review
- Look for unusual relationships
- Make sure statements articulate and agree to what is in the system
- Footnotes should match statements & schedules
- Again...review KMAAG regulatory checklists



Polling question #4



Wrap up

Thank you!



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