

# How to Survive an Audit

CGFOA Virtual Course

March 3, 2026

Max Haberkorn, CPA, Manager

CERTIFIED PUBLIC ACCOUNTANTS  
& BUSINESS CONSULTANTS





- Why do we need an audit?
- Financial statement audits
- Single audit
- Financial statement tips

# Why do you need an audit?

## Why do you need an audit?

- Laws, both State and Federal
- CRS Title 29, Article 1, Part 6 requires a government either submit an audit or obtain an exemption from an audit on an annual basis
  - Debt agreements may also require an audit
- If you have over \$1,000,000 in revenues or expenditures, you need an audit
- Exemptions can be obtained between \$200k to \$1 million
- If you spend over \$1,000,000 in federal funds you also required a single audit of your federal programs

## Looking on the bright side

- You can tell the story about the activity at the government via MD&A
- Engages the public in the process and keeps them informed
- An opportunity to better your accounting processes, procedures and controls



# What Auditors Do

- Seek to express an opinion over the reporting units of the government
  - Governmental activities, business-type activities, each major fund, aggregate remaining information, and component units.
- Free of “material misstatement” from generally accepted accounting principals (GAAP)
  - External auditors don’t audit everything!
  - Risk based approach to tailor audit procedures to your activity to efficiently gather evidence (this can change year over year)

## What Auditors Do

- We gather evidence to support those opinions:
  - These take the form of confirmations with third-parties, sample selections, analytics and predictive tests based on historical activity or balances
  - Confirmations are generally quick, and the best audit evidence, but you're relying on the third party to respond.
  - Samples are generally the least efficient, but also give one of the highest levels of assurance
  - Analytical and predictive tests provide only a base level of evidence but are generally quick and used for balances that auditors determine to be lower risk in an amount is high predictable or aren't expected to change much each year.

# What Auditors Do

- How do we go about this?
  - Risk assessment each year at planning and interim lets us focus on what's changing and where we need to focus our efforts
  - Auditor hint: If something significant or different happened during the year, let the auditors know and send over relevant documentation before they ask, i.e. major new grant, debt issuance/refunding
  - Some audit procedures will stay the same each year, some will change based on this risk assessment, so expect some similar requests, but don't be surprised if we ask for something new, too.
  - If you have a question about what we need a new request for, don't be afraid to ask! We're happy to talk about the why

## What Auditors Do – Increased Focus

- IT systems (expect continued emphasis on that and controls related to how your data is stored, and who has access to your accounting software and related systems)
  - How to prepare: Know which systems you use for accounting records, know who stores your data (servers or cloud), and if you have outsourced IT services, make sure you introduce them to your auditor
- Increased focus on assumptions and estimates made in the financial statements, including pensions, remaining useful lives, allowances for uncollectable receivables, etc.
  - Management's judgement means you and your auditor might not get to the same number, be prepared to discuss why your estimate is done that way

# General Tips on Audit Requests

- Ask for last year's version (or an example)
- If we ask for something you don't usually prepare, it's fair to ask if it's necessary for you to create it just for the audit (we can generally work around it) or determine if you already prepare something else that may fulfill it
- Ask for clarification if you're not sure what we're asking
  - Sometimes account groupings auditors use aren't what you expect or normally evaluate
  - Ask for them to focus on specific accounts, or budgetary line items which already have an analysis you've prepared
  - Tell the auditors how to ask you for information and like to communicate

## General Tips on Audit Requests

- Anything that's a number in a disclosure will need support as well, not just the main financial statement line items, and we must audit those as well.
- This is especially important to have available if the auditor is also assisting in preparation of your financials!
- Ask the auditor for their request list well in advance if they haven't already given it to you, helps to have it along side your close process to know what you're already checking off

# Audit Evidence

- If there's no clear audit evidence for something, don't panic, there are usually ways around it
- Alternative procedures can potentially be performed
- Communicate often and early when you think you might have an issue getting something the auditor is requesting, it will help us work through a solution together
- Doesn't automatically mean an adjustment or finding

# Materiality

- Materiality drives how much we test
  - Materiality is a statistical calculation based on dollar values for the opinion units
  - Could be assets, revenues, expenditures, etc.
  - While it is a quantitative calculation, there is a qualitative aspect to it (what do the users of the statements care about?)
- A few major terms you need to know:
  - Performance Materiality, sometimes auditors refer to this as materiality, generally the threshold auditors use to guide their overall testing and the importance of an area
  - Trivial (a small percentage of materiality)

## Audit Adjustments (if they happen)

- If it's determined there's an error, and an adjustment is needed, materiality drives how it's handled:
  - If error is more than materiality the adjustment *must be made*, otherwise we would need to modify our opinion (not good)
  - Between materiality and trivial it's considered a "passed" or "proposed" journal entry
  - Individually you can generally "pass" on booking these for the audit, unless you have multiple passed entries that push you over full materiality
  - Anything below trivial requires no entry, but we may point them out for best practices/process improvement purposes

## Audit “Findings” (if they happen)

- Generally, when people talk about audit findings, they mean reportable control deficiencies:
  - Material Weakness is the highest level of deficiency (this is generally issued if you have a material audit adjustment)
  - Significant Deficiency is lower, but still requires notice to governing body
- Other control deficiencies and recommendations that don't rise to the level can still be communicated, but don't necessarily have to be in a formal, written format, or made to governance

# How Do You Avoid Audit Adjustments?

- Documentation, Documentation, Documentation
  - The benchmark for good audit evidence is one simple question: Could somebody reperform this work with the support provided, and come to the same end result for the journal entry (or disclosure)?
  - If it's not documented, it's not done, and it's not audit evidence
  - Tell the story, make sure there's no space between the lines
  - Follow up phone discussions with emails, save meeting invites
  - Be aware of your record retention policy (your email you think you have could be automatically deleted before the audit starts)

## How Do You Avoid Audit Adjustments?

- Have a plan to review anything you send the auditors, if you don't already have a review process over the information you send over
- Auditor tip: Be mindful of providing multiple revised versions of supporting documents. Sometimes it's better to hold off on providing something until it's complete, but talk to your auditor about that
- If you have an auditor reach out with questions during the year!
  - We won't ding you for reaching out proactively if you don't have the answer or need help
  - If you have it right before the end of the year, that's what counts.

# Specific Audit Items

## ■ Cash

- Do your reconciliations you plan to provide for your accounts match the GL balance of the account?
- Be careful when making closing entries, sometimes they can potentially throw off previously performed reconciliations especially with pooled cash.
- Cash accounts are typically confirmed with the bank
- Auditors will generally ask for large deposits in transit or checks outstanding if there are any in your operating accounts

# Specific Audit Items

## ■ Investments

- Having a summary schedule of all your investments helps
- A lot of disclosures come with investments, so having that summary can make it easy in prepping the financial statements and help the auditors tie that out.
- Make sure that your disclosures capture the whole number of investments you hold at year-end
- Investment accounts are typically confirmed as well, but can be harder, depending on who's holding the investments
- We'll also try to confirm investment income, or tie it out to the statements if it's significant during the year

# Specific Audit Items

## ■ Capital Assets

- Have a rollforward, showing three types of activity: additions, deletions and transfers out of CIP into final fixed assets.
- If you generally have a lot of capital activity, you'll see samples being pulled for additions to fixed asset (or disposals if you have a lot in a year)
- Auditor quick tip: If you don't do it already, I recommend developing a reconciliation for capital outlay to additions, especially if you don't capitalize everything in capital outlay, or capitalize items from other expense accounts or aren't in expense (donated assets or similar items)
- Watch out for those late progress billings that impact both capital asset and payables

# Specific Audit Items – Capital Asset Rollforward

	Balance PY	Reclassifications	Additions	Deletions		Balance CY
Capital assets not being depreciated:						
Land	\$ 200,000	-	-	-		\$ 200,000
Construction in progress	954,565	(653,981)	22,189,734	(22,794)		22,467,524
Works of Art	-	-	-	-		-
Capital assets not being depreciated	1,154,565	(653,981)	22,189,734	(22,794)		22,667,524
Depreciable capital assets:						
Buildings	\$ 10,000,000	-	-	-		\$ 10,000,000
Improvements	\$ 5,456,223	232,590	201,098	(10,000)		\$ 5,879,911
Furnishings and Equipment	\$ 152,654	51,912	8,048	(25,152)		\$ 187,462
Computer Systems	\$ 254,555	369,479	457,106	(654,564)		\$ 426,576
Infrastructure	-	-	-	-		-
Depreciable capital assets	15,863,432	653,981	666,252	(689,716)	Tab 5	16,493,949
Total capital assets	17,017,997	-	22,855,986	(712,510)		39,161,473
Accumulated depreciation:						
Buildings	\$ 9,554,561	-	500,454	-		\$ 10,055,015
Improvements	\$ 4,555,661	-	123,456	(10,000)		\$ 4,669,117
Furnishings and Equipment	\$ 55,455	-	12,536	(25,152)		\$ 42,839
Computer Systems	\$ 152,332	-	51,256	(654,564)		\$ (450,976)
Infrastructure	-	-	-	-		-
Total accumulated depreciation	14,318,009	-	687,702	(689,716)	Tab 5	14,315,995
Governmental activities capital assets, net	\$ 2,699,988	\$ -	\$ 22,168,284	\$ (22,794)		\$ 24,845,478

# Specific Audit Items – Capital Outlay Recon

Fund	<u>WKPR</u>	<u>Govt and IS</u>
Additions per Rollforward/Listing	▲ 4611	202,811,851
Capital Outlay Accounts	▲ 4601	96,862,617
Variance		105,949,234
Additional Reconciling Items:		
Lease additions		24,286
SBITA additions		12,486,610
Donated Art		
Other Contributed Assets		482,589
Contributed Streets		
CIP Capitalized/Transferred	▲ 4614	92,506,642
Variance	{cc}	449,107

# Specific Audit Items

---

- Capital Assets – Other Tips

- Watch out for those late progress billings that can come in from contractors, sometimes they can several months after year-end but still related to fiscal year-end capital projects
- When you replace an asset and capitalize it, check to see if the old asset was disposed of

# Inventory and Prepaids

- Start with a schedule of what makes up the balance as of year-end, and check that it matches the general ledger
- Auditors will select material items to test as necessary for prepaids, but it's generally limited if not a significant balance, and generally not a large sample
- If you have a lot of inventory, be prepared to have the auditor observe your count process near your fiscal year-end, and for them to test if your inventory is held at lower of cost or market at year-end (price testing)

# Accounts Payable/Accrued Liabilities

- Detailed listing of accounts payable is a key component to an audit, ideally having vendor information and on a per invoice level
- If you can't do that be prepared to show which invoices rolls up into a liability balance
- Auditors will perform a “search for unrecorded liabilities” using a cash disbursement listing to select invoices that were paid after the year-end date

## Search for Unrecorded Liabilities

- Remember that expenses (and liabilities) are recognized when/as goods or services are provided, not when the invoice is received or paid
- This includes pay applications for construction in process, which not only could affect your AP accruals, but also your capital asset balances (make a list of all open project to verify you have all progress billings)
- Auditor tip: Perform your own search for unrecorded liabilities by looking at material disbursements that went out in the month after your fiscal year-end, and ensure that those invoices have a matching liability if the services/goods were rendered before year-end

# Accounts Payable/Accrued Liabilities

- If you have significant other accrued liabilities, auditors will generally want to see a detail schedule for those as well and will potentially select items to test
- Usually these would be covered by the search, unless these are long-term accrued liabilities, which might get a little more attention by the auditors

# Compensated Absences

- Having a rollforward here is key, ideally showing individuals accruing leave, using leave, and how we get from the prior year to current year balances
- Remember due to GASB 101 implementation, you can just show the net change in compensated absences balances and keep reviewing any changes to your time off benefits that might need to be considered for an additional liability.
- Auditors might select a sample of employees to recalculate from this schedule, if the balance is material

# Debt

- The second most important rollforward provided other than capital assets
- Debt, like cash is generally confirmed so other than testing the rollforward, hopefully not a lot of questions or time will be spent here by the auditors, apart from new issuances or refunding of debt within the fiscal year
- Calculate relevant covenants
- Ask for help or a template on the refunding calculation if you've never done one before, they can be complex!
- Remember that the calculation in the bond refunding document is probably not GAAP.

## Consideration of GASB 87/96, Leases and SBITAs

- If you have these items, the right to use assets should be on the capital asset rollforward but separated out from your other capital assets. Same with the liabilities on your debt rollforward.
- If you have more than 5 of these agreements, seriously consider a stand-alone software to help you calculate this and track it year over year
- Generally, the software will give you all the disclosure information you will need for the financial statements based on the information you input, along with the actual asset/liability calculations

## Consideration of GASB 68/75 (Pensions and OPEBs)

- Auditors will need access to everything you have from your third-party provider (PERA/FPPA) and/or your actuary to help audit these balances and transactions in the year
- All pension/OPEB plans need the actuarial report and the audited plan financial statements (if audited) for support
- Cost sharing employers will need to provide the audited schedule of contributions, too
- If you don't have a calculation template, ask your auditor for one; we have them available

# Fund Balance

- Have support for any fund balance other than unassigned in the general fund
  - Assigned fund balance is done by management of the government (have a memo or similar document showing the assignments)
  - Commitments are done by governance (Board or Council resolution)
  - Restrictions are performed by voters passing legislation or by outside entities, like other governments, usually State or Federal (show legislation or agreement with outside entity)
  - Prepaids and Inventory balances should be offset by non-spendable fund balance amounts (common error to not have these appropriately offset)
  - Remember that only the general fund can have a positive unassigned fund balance (other governmental funds can have negative unassigned fund balances, though)

# Net Position

- Most restrictions carry over to net position from fund balance
- Only other major item in net position is Net Investment in Capital Assets
- This calculation is a focus for the GFOA, as we tend to miss components of this calculation
- Be careful to not double count restricted assets funded with debt
- The rest is unrestricted

# Net Investments in Capital Assets

Capital assets (gross)
Less: Accumulated depreciation
Right-of-use Assets, net of amortization
Capital-related deferred outflow of resources*
Less: Capital-related Other borrowings**
Less: Capital-related borrowings (principal amount)***
Capital-related borrowings (discounts)
Unspent Proceeds
Less: Capital-related borrowings (premiums)
Less: Capital-related deferred inflows or resources *
<b>Net Investment in capital assets</b>
* typically as a result of capital borrowing related refundings
** Retainable payable, lease & SBITA liabilities, COPs, capital related accounts payable)
*** unspent proceeds should reduce capital related borrowings for a \$0 net impact on fund balance (\$50k of unspent cash minus \$50k of bond principal equals \$0 net position).

## Revenues (and their Receivables)

- Probably where auditors spend the most time, depending on how diverse your revenue sources are
- Audit standards make us presume that fraud is a risk in revenue, hence the focus
- You'll see the most testing focused here, whether it's significant samples/detail testing, or multiple analytics, and requested support schedules
- Make sure you know your revenue sources and how that support comes to you, sharing that information can help facilitate this process

## Revenues (and their Receivables)

- Auditor tip – know your period of availability, if a revenue isn't expected to be received within that time frame, that amount should be a deferred inflow, not a revenue
- Future property tax receivables should be offset with deferred inflows as well (may not always match 1 for 1, due to timing of payments)
- Auditor tip: Review your deferral balances to make sure you've recognized everything that should be recognized from last year

# Expenses

- Expect analytics here, potentially control testing as well for approval of payments as well
- Remember to ask questions of the auditors if you don't understand their analysis or how they're looking at the accounts in their analysis, if it's prior year to current year, or budget to actual, etc.
- Understanding what they're looking at before researching will save you time and effort in the long run
- Auditor tip: Be prepared to explain big swings from prior year, and line items that significantly deviated from budget. It doesn't hurt to start asking early for these explanations from other departments, if necessary!

## New GASBs to Consider

- GASB Statement No. 102 - *Certain Risk Disclosures*, which is new for December 31, 2025 year-ends requires local governments to disclose information about risks related to specific concentrations or constraints that could severely impact their ability to provide services.
- If you have a significant concentration or constraint footnote already, there might be some additional disclosures required, especially if the nature of that situation is changing.
- Best practice to have a footnote talking about how TABOR impacts your government, even if you're debruced. There are still impacts even if the revenue limitations have been removed.

## Single Audit and Schedule of Expenditures of Federal Awards (SEFA)

- Have a SEFA, even if you're not over the threshold, and make sure you're talking with people outside your team about entering into federal contracts or grants to let finance know.
- You don't want to be caught at the end of the audit and realize all of a sudden you need a single audit too.
- Have a reconciliation from grant expenditures on the general ledger to your SEFA, especially if you have non-federal money going into a project to help separate federal share expenditures for non-federal amounts not reported on the SEFA

# Single Audit and Schedule of Expenditures of Federal Awards (SEFA)

- Documentation you need will mirror what your grant agency will require from you in their monitoring, but remember to also document evidence of your review/controls over everything you do with grant
- Major programs are selected by a formula based on the dollar value of those grants in relation to your overall SEFA
- Expect your largest grant programs to be audited every 3<sup>rd</sup> year if you have long standing grant programs
- The Uniform Guidance also requires us to assess smaller programs on a rotating basis, so be prepared for middle of the road grants to potentially be selected

## Financial Statement Tips – Things Reviewers Look For

- Any where in the document (MD&A, Statistical section) that ties back to a financial statement or disclosure item, make sure they match throughout the document (we're required to check for this)
- Capital asset, debt rollforward disclosure amounts not matching the government-wide reconciliation schedule amounts (usually a few dollars here and there is okay but be careful)
- Pension and OPEB liability amounts not matching throughout the disclosures to the amount recorded on government-wide financials
- Budgetary schedules do not agree or reconcile to the corresponding statements on the face
- Beginning fund balance and net position that doesn't match prior year financials

## Contact Information

---

- Max Haberkorn
  - [max.haberkorn@rubinbrown.com](mailto:max.haberkorn@rubinbrown.com)
  - 303.952.1262
- Feel free to reach out if you have any questions!
- Thank you for attending!