

Common Reporting Errors: From the AUD to the new AFR

Jay Phillips, Project Coordinator, AFR Modernization Team
Paris Walkowiak, Auditor I, Data Management Unit
Division of Local Government and School Accountability



New York State Comptroller
THOMAS P. DiNAPOLI

1

Training Objectives

- Common AUD Reporting Errors
- Handling Errors in the new AFR
- Proper Accounting for Debt Transactions



New York State Comptroller
THOMAS P. DiNAPOLI

2

Types of Errors

- Key Problems:
 - Improper accounting
 - Inconsistency
- Financial edits and validation rules help identify errors.
 - Critical vs. non-critical



New York State Comptroller
THOMAS P. DiNAPOLI

3

AUD and AFR Terminology

Critical and Non-Critical Errors

- AUD
 - Critical edits must be resolved to submit AUD.
 - Non-critical edits do not prevent AUD submittal.
- AFR (Filings for 2023 FYE and on)
 - Critical validation rules must be resolved.
 - Non-critical validation rules require resolution or explanation.

Critical Errors - Financials

AUD and AFR

- Balance Sheet

$$\begin{array}{|l} \text{Assets +} \\ \text{Deferred Outflows} \end{array} = \begin{array}{|l} \text{Liabilities +} \\ \text{Deferred Inflows + Fund Balance} \end{array}$$

- Changes in Fund Balance

$$\begin{array}{|l} \text{Prior year's ending Fund Balance} \\ + \text{Revenues} \\ - \text{Expenditures} \\ = \text{End of year Fund Balance (code 8029)} \end{array} = \begin{array}{|l} \text{Total Fund Balance} \\ \text{reported on Balance Sheet} \end{array}$$

Non-Critical Errors

- Edits and Validation Rules
- Misclassification
- Debt Reporting Errors

Transfers

Bank transfers vs. Interfund transfers

- **Bank transfers – exchange of assets**
 - Not to be confused with interfund transfers.
 - Should not be included in revenues and expenditures.
- **Transfers In = Transfers Out**
 - Transfer codes: Revenue (5031) and Expenditures (9901.9 or 9905.9)

Due To / Due From

- **AUD edits**
 - Due To/ Due From do not equal
- **AFR validation rules**
 - Due To/ Due From do not equal
 - Due From is 5% or more of Fund Balance

Negative Figures

- **AUD – no edits, reviewed by OSC staff**
- **AFR – prevents reporting inappropriate negatives**
 - Exceptions include:
 - Allowance for Receivables (credit balance)
 - Deficit Fund Balance ("Unclassified" code 917)
 - Few other exceptions for specific transactions
- **Example: Reimbursements**
 - Net against expenditure if current year
 - If prior year reimbursement, use revenue code 2701 "Refund of Prior Year's Expenditures"

Negative Cash

- **AUD**
 - If a fund is borrowing from another or pooled bank accounts, then report Due To/ Due From to reflect actual cash balances.
- **AFR**
 - Negative balances not allowed for cash asset codes.
 - Code 633 – Due to Financial Institution for Overdrawn Accounts.



Budget Reporting

Appropriated Fund Balance

- The appropriated fund balance reported on the balance sheet should equal the amount reported on the budget summary.
 - **AUD**
 - No edit, part of OSC review
 - **AFR**
 - Non-critical validation rule
 - Validation rule for large budget to actual variance
 - Greater than 20% on revenue or expenditure sides



Unclassified and Other Codes

- AUD**
- **Unclassified Revenue 2770**
 - **Online Chart of Accounts Query**
 - Add comment/description
 - Search available codes prior to using 2770
 - <http://we1.osc.state.ny.us/acctlookup/accountlookup.cfm>
- AFR**
- **Several codes require explanation**



Deferred Inflows and Outflows of Resources

Activity related to future periods

- **AUD**
 - No edit, part of OSC review.
- **AFR**
 - Validation rules trigger if greater than 5 % of fund balance and liabilities.

Restricted Funds

- **Fund balance subject to externally enforceable legal purpose restrictions**
 - Restricted Fund Balance (800-899) = Restricted Assets (230, 231, 452, 453)
- **AUD**
 - No edits, part of OSC review
- **AFR**
 - Validation rule, non-critical

Consolidated Local Street and Highway Improvement Program (CHIPS)

- **CHIPS Revenue is recorded in 3501 – State Aid, Consolidated Highway Aid.**
- **Capital Expenditures are recorded in account 5112.2 Perm Improve Highway, Equip, & Cap Outlay.**

Reporting Debt in the Annual Update Document (AUD)

- Supplemental Section
 - Statement of Indebtedness (SOI)
- Several debt edit checks
 - Statement of Indebtedness vs. Fund activity
 - Debt edit exceptions

Validation Rules

Statement of Indebtedness

- AUD Edits
 - Principal paid
 - Newly issued
 - Outstanding balances
- AFR New Validation Rules
 - Interest paid
 - BANs redeemed
- Critical vs. Non-Critical

Types of Indebtedness

- Bonds
- Bond Anticipation Notes (BANs)
- Tax Anticipation Notes (TANs)
- Revenue Anticipation Notes (RANs)
- Budget Notes/ Deficiency Notes
- Installment Purchase Contracts (IPCs)
- Current and Advanced Refundings

Bond in Governmental Funds

- **Liability in the Schedule of Non-current Governmental Liabilities (W628)**
 - Bond proceeds and related expenditures are shown in the Capital Projects (H) Fund.
 - Principal (9710.6, 9720.6) and interest payments (9710.7, 9720.7) are shown in the related operating fund, or in the Debt Service (V) Fund.

Bond in Governmental Funds

- **Bond issued for \$500,000. No proceeds spent.**

H200	Cash	500,000	
H5710	Serial Bonds		500,000
W129	Total Non-current Gov. Liabilities	500,000	
W628	Bonds Payable		500,000

- **Proceeds used to purchase a building.**

H1620.2	Buildings, Equip. and Cap. Outlay	500,000	
H200	Cash		500,000

Bond in Governmental Funds

- **\$25,000 Bond Principal and \$10,000 interest paid in General Fund**

A9710.6	Debt Principal, Serial Bonds	25,000	
A9710.7	Debt Interest, Serial Bonds	10,000	
A200	Cash		35,000

- **Liability reported in W Fund**

W628	Bonds Payable	25,000	
W129	Total Non-Current Govt. Liabilities		25,000

Bond in Enterprise Funds

- Liability reported on Balance Sheet.
- If proceeds were used to purchase an asset, report as a balance sheet transaction. Net assets are not affected.
 - AFR will no longer trigger an error.
- Acquired asset is expensed using depreciation method over the useful life.



Bond in Enterprise Funds

- \$100,000 Bond issued in Enterprise Utility Fund

EE220	Cash from Obligations	100,000	
EE628	Bonds Payable		100,000

- Proceeds are used to acquire the equipment

EE104	Machinery and Equipment	100,000	
EE220	Cash from Obligations		100,000



Bonds – Exceptions

- Judgements and Claims
 - e.g., Tax Certiorari
- Deficit Financing
- Bond Refunding



Bond Validation Rules

- **Bond Validation Rules:**
 - Bond liabilities on Balance Sheet (623, 628) = Bonds outstanding at end of year on SOI
 - Total Bond principal expenditures in the funds (9710.6, 9720.6, 9700.6) = Bonds redeemed on SOI
 - Total Bond interest expenditures in the funds (9700.7, 9710.7, 9720.7) = Bond Interest Paid on SOI
 - Total Bond revenue (5710, 5720, 5700, 5791, 5792) = Bonds issued on SOI

BAN in Governmental Funds

- **Liability in Capital Projects (H) fund**
 - Unless maturity is greater than one year
- **Proceeds and related capital expenditures in the (H) fund**
- **Principal and interest payments in the related operating funds**
- **Account code H5731 BANs Redeemed from Appropriations**

BAN in Governmental Funds – Short Term

- **New short-term BAN issued for \$100,000**

H200	Cash	100,000	
H626	BANs Payable		100,000

- **Proceeds used to purchase \$100,000 truck for Highway Department**

H5110.2	Maintenance of Streets, Equip. and Cap. Outlay	100,000	
H200	Cash		100,000

BAN in Governmental Funds – Short Term

- Paid principal of \$25,000 and interest of \$2,000 out of Highway (DA) Fund

DA9730.6	Debt Principal, BANs	25,000	
DA9730.7	Debt Interest, BANs	2,000	
DA200	Cash		27,000

Liability reported in Capital Projects (H) Fund

H626	BANs Payable	25,000	
H5731	BANs Redeemed From Appropriations		25,000

BAN in Governmental Funds – Short Term

- \$75,000 BAN is redeemed with proceeds from new bond issuance (Liability in H Fund)

H626	BANs Payable	75,000	
H5710	Serial bonds		75,000
W129	Total Non-current Govt. Liabilities	75,000	
W628	Bonds Payable		75,000

BAN in Governmental Funds – Long Term

- New long-term BAN issued for \$100,000

H200	Cash	100,000	
H5730	Bond Anticipation Note		100,000
W129	Total Non-current Govt. Liabilities	100,000	
W626	BANs Payable		100,000

- Liability reported in Capital Projects (H) Fund

H5110.2	Maint. of Streets, Equip. and Cap. Outlay	100,000	
H200	Cash		100,000

BAN in Governmental Funds – Long Term

- Paid principal of \$25,000 and interest of \$2,000 out of the Highway (DA) Fund

DA9730.6	Debt Principal, BANs	25,000	
DA9730.7	Debt Interest, BANs	2,000	
DA200	Cash		27,000

- Liability reported in Schedule of Non-current Governmental Liabilities (W)

W626	BANs Payable	25,000	
W129	Total Non-current Gov't Liabilities		25,000

BAN in Governmental Funds – Long Term

- \$75,000 BAN is redeemed with proceeds from new bond issuance

W129	Total Non-current Govt. Liabilities	75,000	
W628	Bonds Payable		75,000

W626	BANs Payable	75,000	
W129	Total Non-current Govt. Liabilities		75,000

BAN in Enterprise Funds

- Liability reported on balance sheet.
- If proceeds were used to purchase an asset, report as a balance sheet transaction. Net Assets are not affected.
- Acquired asset is expensed using depreciation method over the useful life.

BAN in Enterprise Funds

- \$100,000 BAN issued in Enterprise Utility Fund

EE220	Cash From Obligations	100,000	
EE626	BANs Payable		100,000

- Proceeds are used to acquire equipment

EE104	Machinery and Equipment	100,000	
EE220	Cash From Obligations		100,000



BAN in Enterprise Funds

- \$100,000 BAN issued in Enterprise Utility Fund

EE626	BANs Payable	25,000	
EE9730.7	Debt Interest, BANs	5,000	
EE220	Cash From Obligations		30,000



Bond Anticipation Notes - Exceptions

- Judgements and Claims
– e.g., Tax Certiorari
- Deficit Financing



Debt Edits – BANs

- **BAN edit checks:**
 - BAN liabilities on Balance Sheet (626) = BANs outstanding at year-end on SOI
 - Total BAN principal (9730.6) in funds = BAN principal payments on SOI
 - Total BAN principal (9730.6) = BANs Redeemed from Appropriations (H5731)

Installment Purchase Contracts (IPCs)

- **An agreement used to finance the acquisition of an asset.**
 - Accounted for similarly to Bonds in the Governmental and Enterprise funds.
 - Account codes 5785, 9785.6, 9785.7.
 - Capital asset shown in Schedule of Non-current Governmental Assets (K).
 - Liability shown in the Schedule of Non-current Governmental Liabilities (W685).

Statement of Indebtedness Summary of AFR Reporting Changes

- Debt issuances reported as single record, even if multiple purposes.
- Interest expenditures reported, but not interest rate.
- Debt limit exemptions not reported.
- Indicate if a debt is associated with proprietary funds.
- BAN renewals.
- Refunded debt separated.
 - Indicate if a refunding is current or advanced.

Other Supplemental Schedules

- **Schedule of Time Deposits and Investments**
 - Merged with Bank Reconciliation in AFR.
- **Energy Costs and Consumption Schedule**
 - No longer collected for AFR.

Employee and Retiree Benefits Schedule

- **Expenditures for each provided benefit should reconcile against fund activity.**
 - AUD
 - No edits, part of OSC review.
 - AFR
 - Critical validation rule triggers if any reported benefit expenditure is less than reported in funds.

Bank Reconciliation Statement

Cash in Bank Reconciliation statement =
Cash in the funds (200, 210, 223, 230, 231)

- **AUD**
 - Edit, non-critical.
- **AFR**
 - Validation rule, non-critical.
 - Additional validation rules to ensure reliable cash balance reporting.

Resources and Contacts

- Accounting and Reporting Manual (ARM):
 - <http://www.osc.state.ny.us/localgov/pubs/arm.pdf>
- AFR Modernization Website:
 - <https://www.osc.state.ny.us/local-government/required-reporting/annual-financial-report-afr-modernization-project>
- Data Management Unit Help Line:
 - 866-321-8503 or 518-408-4934, Option 4



New York State Comptroller
THOMAS P. DINAPOLI

43
