



FLEXIBLE. COMPREHENSIVE. AUTOMATED.

Government Financial Reporting Simplified.

Presenter: Hafiz Khan

Agenda

- Your Financial Reporting Reality
- Current Processes
- Flexible, Comprehensive and Automated Solutions





Your Financial Reporting REALITY

Your Financial Reporting Reality

Requirements:

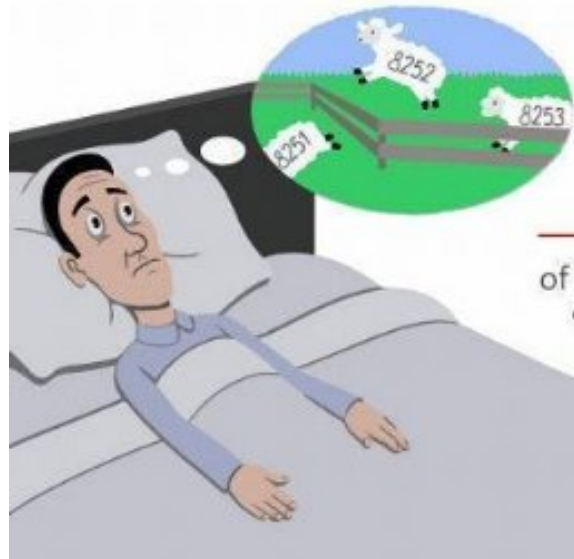
- Meet Regulatory Compliance and Provide Transparency
- Provide Timely Disclosure
- Mitigate Financial Risks

**All while being understaffed
and stretched to the limit!**



What are the financial reporting issues keeping CFOs awake at night?

Survey 2017 by **FSN**



43%

of CFOs worry they will face questions on the accounts that cannot be immediately answered.

62%

of finance teams worry that they will not meet all their reporting deadlines.

55%

of CFOs worry that financial controls have not been working during the period.

50%

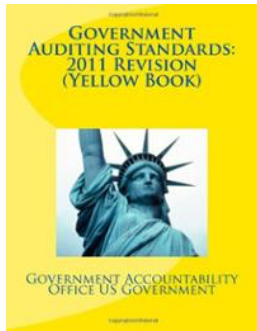
of CFOs worry whether all documents and disclosures have been updated with latest changes to accounts.

46%

of CFOs worry about the discovery of an error in a critical spreadsheet.



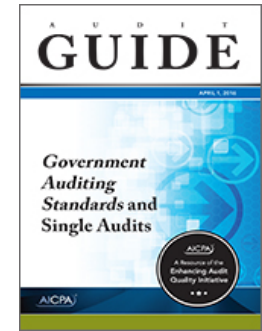
Regulatory Compliance



Standards and Regulations enable Governments:

- **Provide decision-making information to users of government financial reports**
 - owners of municipal bonds
 - members of citizen groups
 - legislators and legislative staff
 - oversight bodies

- **Demonstrate to constituents their accountability and stewardship over public resources**



At the Municipal Finance Conference on July 17/18 2017 at the Brookings Institution



“State and local government financial reporting is regulated more lightly than that of corporations, but **recent enforcement actions taken by the Securities Exchange Commission alleging fraud and other developments** have sparked an effort to promote better financial disclosure by state and local government borrowers.”

The SEC's Screws are Tightening...

*“The rules come as the SEC grapples with a host of problems in the muni market, including what it sees as lackluster disclosures for investors. **The SEC has cracked down on municipalities for failing to keep investors apprised of their financial health** and the agency has turned to Congress to boost its limited authority in the market...”*

WSJ, Sep 05 2013



SEC Municipal Securities Enforcement Actions

- Port Authority Omitted Risks to Investors in Roadway Projects **(Jan. 10, 2017)**
- Statement on Jury's Verdict in Trial of the City of Miami and Michael Boudreaux **(Sept. 14, 2016)**
- SEC Charges 71 Municipal Issuers in Muni Bond Disclosure Initiative **(Aug. 24, 2016)**
- Former CEO of Chicago Charter School Operator Settles Muni-Bond Fraud Charges **(Jun. 21, 2016)**
- California Water District to Pay Penalty for Misleading Investors **(Mar. 9, 2016)**
- SEC Charges Rhode Island Agency and Wells Fargo with Fraud in 38 Studios Bond Offering **(Mar. 7, 2016)**

Major SEC Enforcement Actions Against State and Local Governments for Misleading Investors

Entity	Year	What did it mislead about?
Orange County, CA	1996	Risks involved in County's investment pool operation and strength of County's finances
Maricopa County, AZ	1996	Strength of County's finances
Syracuse, NY	1997	Strength of City's finances and whether or not certain information was audited
Miami, FL	2003	Reliance on bond revenues for operating expenses
Massachusetts Turnpike Authority	2003	Cost overruns from the Big Dig
San Diego, CA	2006	Pension plan underfunding
New Jersey	2010	Pension plan underfunding

Sources: "Report on the Municipal Securities Market," U.S. Securities and Exchanges Commission, July 31, 2012

Timely Disclosure



Timely Disclosure

The SEC says...

*“.....The **timeliness of financial information** in primary offerings and on an ongoing basis is an area of concern”*



Timely Disclosure

The SEC says...

*“Studies have shown that disclosure of audited annual financial statements by many municipal issuers is **particularly slow**”*



Timely Disclosure

The SEC says...

*“By the time annual financial statements are filed or otherwise publicly available, many municipal market analysts and investors believe the **financial information has diminished usefulness or lost relevance** in assessing the current financial position of a municipal”*



Timely Disclosure

The SEC says...

“... Credit ratings drop following restatement of numbers”



Timely Disclosure

Slow and incomplete filings will impact your ratings and increase cost of borrowing

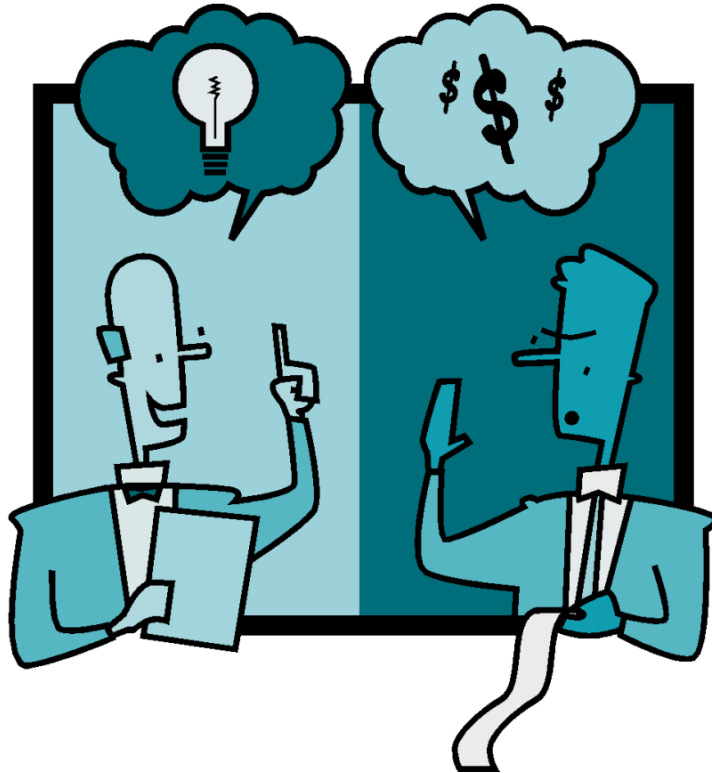
Major Rating Agencies Rating Guide for Long and Short Term Debt									
Moody's		S&P		Fitch		Risk			
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Characteristic			
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime			
Aa1		AA+		AA+		High Grade			
Aa2		AA		AA		High Grade			
Aa3		AA-		AA-		High Grade			
A1		A+		A+		High Grade			
A2		A		A		High Grade			
A3	P-2	A-	A-1	A	F1	Upper Medium Grade			
Baa1		BBB+	A-2	BBB+	F2	Lower Medium Grade			
Baa2		BBB	A-3	BBB	F3				
Baa3	BBB-	BBB-							
Ba1	Not Prime	BB+	B	BB+	B	Non-investment grade speculative			
Ba2		BB		BB					
Ba3		BB-		BB-		Highly Speculative			
B1		B+		B+					
B2		B		B					
B3		B-		B-					
Caa1		P-3		CCC+		C	CCC	C	Substantial Risks
Caa2				CCC					Extremely Speculative
Caa3				CCC-					In default with little prospect for recovery
Ca				CC					
C	C	D	/	DDD	/	In default			
/	/						DD		
/	/						D		



Mitigate Financial RISKS

Cost is on everyone's agenda, while risk is being downplayed

“This will automate all the work, and take all the risks away!”



**“But it costs money!
Are you kidding?
I don't have the
budget nor the
resources for this !!!
Try me in 2025!”**



Financial Reporting Risk

“The possibility that the documents filed contains false information is financial reporting risk”



Financial Reporting Risk

Errors in financial reporting can arise from:

- Lying or mistakes in accounting
- Incompetence
- Lack of controls



Financial Reporting Risk

The adverse effects of Financial Reporting Risk:

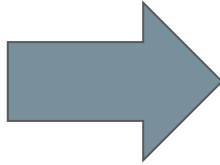
- People attach more importance to losses
- Risk perceptions of people is what drive their actions

Financial Reporting Risk

Financial Reporting Risk can be pervasive anywhere in the organization

Financial Reporting Risk may also arise from inaction (Do you audit your spreadsheets every year?)

Finance are sometimes ill-equipped to deliver data requested in a timely and transparent basis.



Processes - *Manual?*

Conditions - *Short-staffed?*

Internal Factors - *Politics?*

Decisions- *“If it ain’t broke.....”*

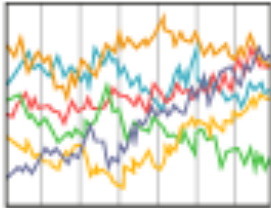
Choices - *“Spreadsheets are fine.....”*

External Factors- *“Auditors did complain about the mistakes we have”*

Spreadsheet (Financial Statement) Risk

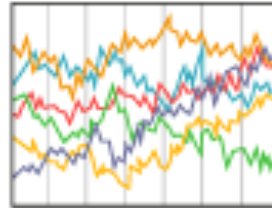
An Exercise in Futility

HERE IS THE CHART I AM NOW
IN CHARGE OF UPDATING FOR
THE COMPANY IN EXCEL...



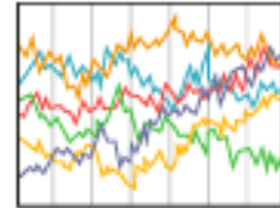
CB

IT SHOWS THE NUMBER OF TABS,
FILES, FORMULAS, FUNCTIONS &
MACROS WE USE IN EXCEL...



CB

IT ALSO SHOWS THE NUMBER OF
MISTAKES WE MAKE IN EXCEL, SO
IT'S PROBABLY NOT ACCURATE.



CB



Spreadsheet (Financial Statement) Risk

- *“Every study that has attempted to measure errors, without exception, has found them at rates that would be **unacceptable in any organization**”*
- *“With such high cell error rates, most large spreadsheets will have **multiple errors**, and even relatively small “scratch pad” spreadsheets will have a significant **probability of error**”*
- *“An officer agreed with the error rate numbers but felt that comprehensive code inspection is simply impractical. In other words, he was saying that the organizations should continue **to base critical decisions on bad numbers.**”*

A 2008 University study on Spreadsheet Research concluded that **88% of spreadsheets contain errors**

Panko, Raymond R. (1988). *What We know About Spreadsheet Errors. Journal of End User Computing's Special Issue on Scaling Up and User Development, Volume 0, No. 2.*

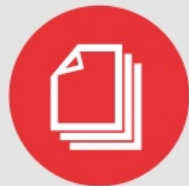
Spring 1998, pg. 15-21, Revised May 2008.



Spreadsheet (Financial Statement) Risk

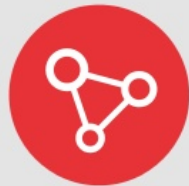
How would you rate 'spreadsheet risk' as a business risk to your firm?	Very serious	Serious	Not at all serious	Other
C-level executives	21%	34%	9%	36%
<i>Of these, working in financial/ risk modelling</i>	15%	38%	8%	38%
<i>Of these, working in accounting</i>	25%	34%	9%	31%
<i>Of these, those working in tax</i>	24%	36%	8%	32%

Source: [ClusterSeven](#)



Growing pains:

As your business grows, so does your spreadsheet collection. As multiple spreadsheets try to become linked, each stage of growth increases the likelihood of errors.

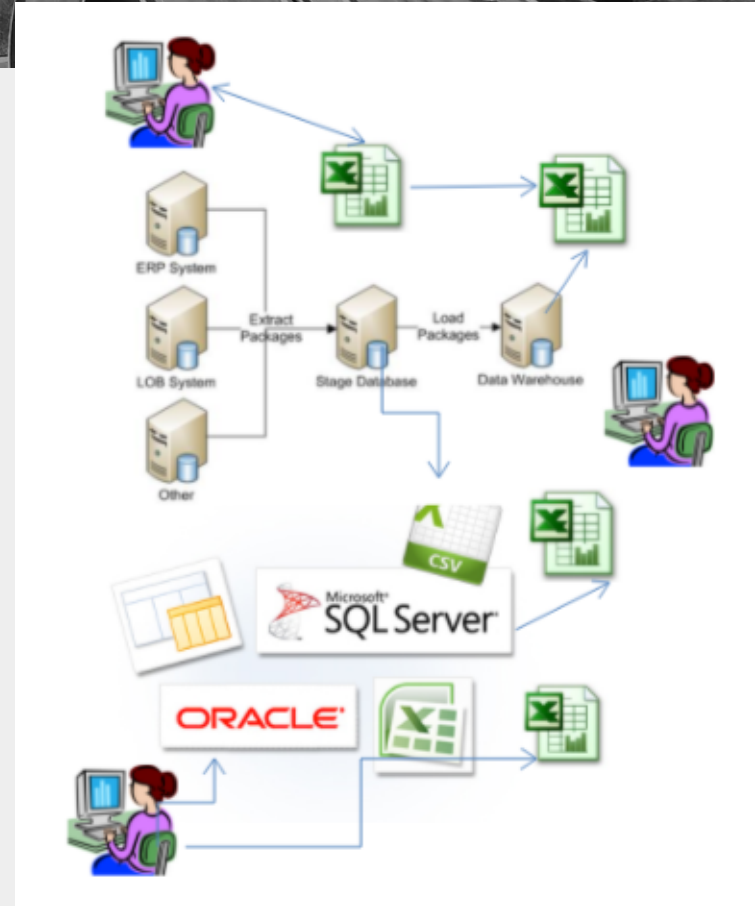


Single / multiple points of failure:

In all likelihood the spreadsheet your business currently depends upon was created by one person, one Excel whizz. This creates a single point of failure - what happens if that person leaves, retires or simply switches roles? The same risk applies if multiple spreadsheets were created by multiple people creating multiple points of failure.

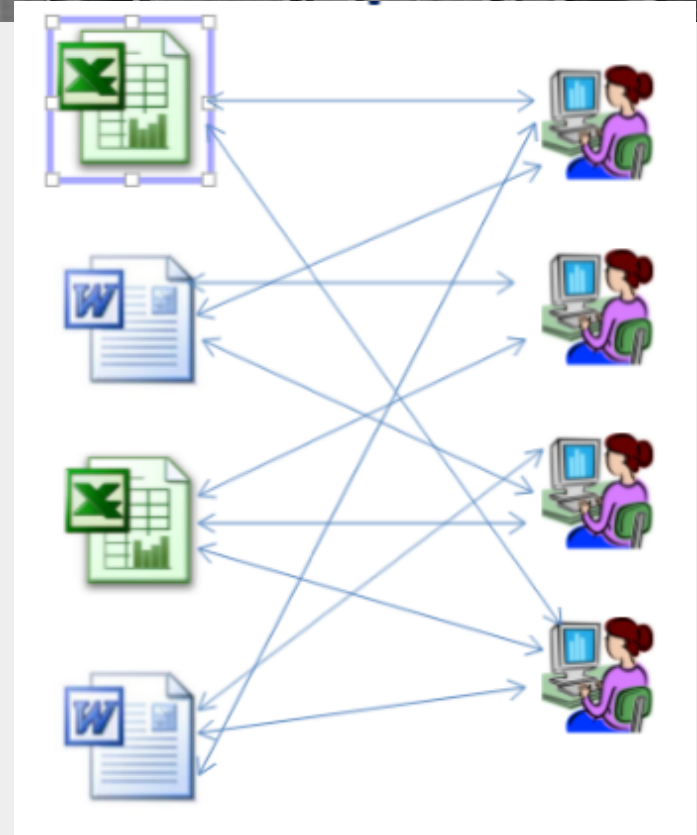
Multiple Sources/Systems

- Data that goes into filings comes from multiple systems
- Most folks manually extract data from their ERP systems that provides the bulk of the financial information *into spreadsheets*
- In a collaborative environment, multiple people “touch” all the critical areas
- Lack of controls in manual processes



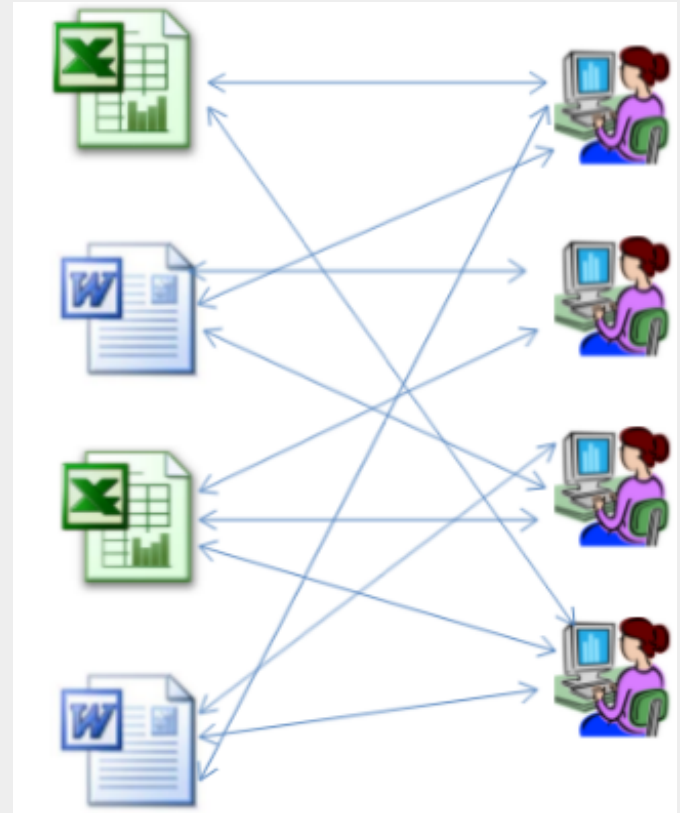
Narratives by various areas or departments

- Data inserted manually may be a risk
- Versioning issues- How does the team synchronize all changes?
- How do you tie the numbers to the narratives? Accuracy?
- Objectivity
- Does the team manually track all this?

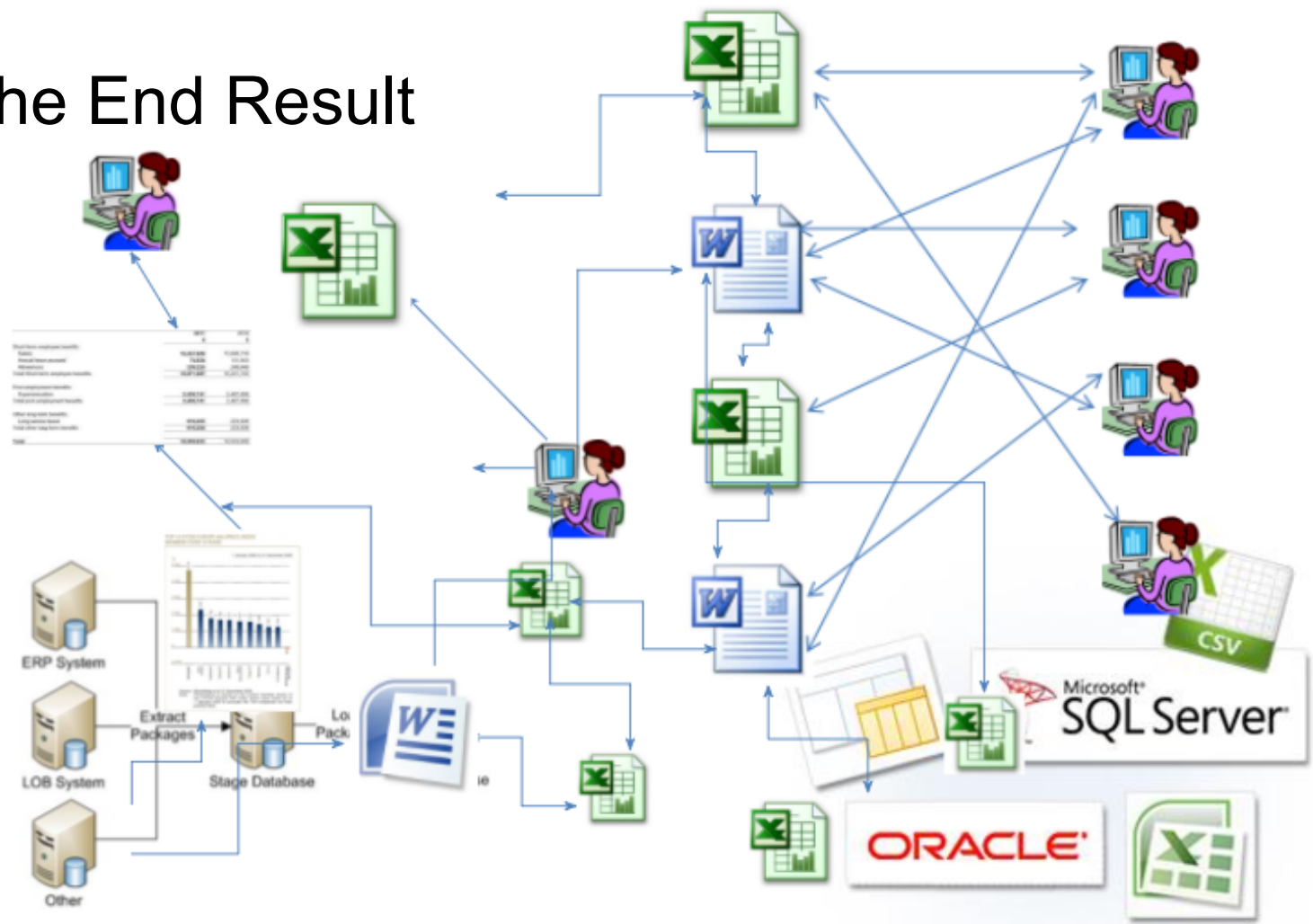


Text, Tables and Statements must all agree!

- Are all sections and format consistent from period to period?
- Do numbers referenced change along with the commentary and the tables?
- How about Page numbering, notes numbering, and pagination?
- Do the numbers foot?
- Rounding must adhere to a specific convention. How do you guarantee that?



The End Result





What are your
CURRENT PROCESSES?

What is your current process?

- Are you using multiple disconnected, versioned spreadsheets?
- Do your systems handle modified accrual to full accrual entries?
- Is your existing rounding procedure exasperating?
- Does your general ledger prevent you from effectively and efficiently producing reports?
- How do you bring all the pieces together?





Did you know there are
solutions to help?!



Eliminate multiple, versioned spreadsheets

Flexible

- Database, not spreadsheet
- Consolidation of all data into one platform
- Reports created from this one consolidated platform

Comprehensive

- Houses all information and support materials in one centralized location
- Ensures transparency and security
- Centralized review and sign-off

Automated

- Single source of truth
- Change once, update everywhere
- Immediate access to trial balance, supporting work papers and backup documents



Manage modified accrual to full accrual entries

Flexible

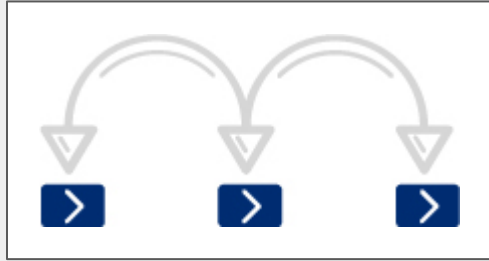
- Post AJEs that flow through to all financials and narratives
- Post GASB conversion entries directly within the software
- Import and Export all entries types

Comprehensive

- Risks associated with manual AJEs are eliminated
- Workflow is created and enforced
- Changes are tracked and users can be notified, if required

Automated

- Post once, update everywhere
- Entries flow from TB to everywhere that is linked
- Recurring and Calculated adjustments simplify



Streamline and automate rounding procedures

Flexible

- Rounding must be accurate to ensure Gov't credibility and readers' trust
- Flexible rounding options, whether to the nearest dollar, thousands or millions must be enforced to ensure agreement

Comprehensive

- Manual identification is time-consuming, cumbersome and frustrating
- Rounding errors should be automatically identified to ensure agreement across all areas of reports

Automated

- Automatic Rounding - set once and rounds automatically to the nearest dollar, thousands and millions
- Rounding Relations- automatically round and allocate differences based on configuration, across reports



Effectively and efficiently produce a financial report

Flexible

- The CoA structure must be flexible for ever- changing reporting requirements
- Allow for handling of multiple bases of accounting
- Allow for production of an array or reports: CAFR, BB, etc.

Comprehensive

- Mapping CoA to database to auto-identify and assign new accounts to any grouping on imports
- Changes can be made in a drag-and-drop GUI
- The CoA must be easily maintained and updated to ensure accuracy YOY

Automated

- Accounting officers should be focusing on the report at hand, not bogged down by manual tasks
- As GL/Fund structure changes over time, simple grouping changes can be made to automatically restate financials and reports



Simplify the reporting processes

Flexible

- Bring disparate information vast number of documents together
- Centralized library where elements can be created, updated, saved, reused
- Produce all reports from the latest centralized content pool

Comprehensive

- Centrally leveraging GASB standards and ancillary materials such as notes based on best practices
- Consistent formatting, page and note-numbering, and auto-pagination throughout entire report

Automated

- Understaffing requires automation
- Financial reports production and audit prep within same app
- All components within any financial report should auto-update when numbers change

Conclusion

Consider a solution to avoid the pain of:

- **preparing your financial statements manually**
- **financial statement errors (spreadsheets!)**
- **higher borrowing costs**

**Come visit CaseWare's booth
to learn more!**



An aerial, black and white photograph of a complex multi-level highway interchange. The roads curve and cross each other in various directions. In the background, a residential neighborhood with houses and trees is visible. The text "Q & A" is overlaid in the center of the image.

Q & A