

Certificate of Achievement for Excellence in Financial Reporting

Special Review Committee

REVIEWER INFORMATION

Thank you for agreeing to serve as a member of the Special Review Committee (SRC) of the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program (Certificate Program). Your work as an SRC reviewer is vital to the continued success of the Certificate Program.

Serving on the SRC offers a number of important benefits:

- *Professional service.* Over the past half century, the Certificate Program has made a major contribution to improving the quality of financial reporting in the public sector. When you serve as an SRC reviewer, you are making a direct personal contribution toward enhancing the public finance profession.
- *Exposure to practice.* Your review of CAFRs from different types of governments across the country offers unparalleled exposure to the broad range of current public-sector practice. This exposure can be an invaluable resource for improving the quality of your own financial reporting or that of your clients.
- *Maintain and sharpen technical skills.* Reviewing CAFRs for the Certificate Program is a practical way to keep abreast of the most recent developments in authoritative standards affecting accounting and financial reporting for state and local governments.
- *Recognition.* Your service as a reviewer in the Certificate Program is a practical way of demonstrating your expertise and professional dedication to colleagues, employers and potential clients. Reviewers are listed each year as part of the results in the Award Program section of the GFOA's website at www.gfoa.org/coa.

The remainder of this guide and the sample reviews will provide the information that you need to function as an effective SRC reviewer.

Program Administration

What does GFOA need to know about you as a reviewer?

The Certificate Program needs to have *current* information on how to contact you for reviews (i.e., the street address to which the CAFR should be sent, e-mail address, and telephone number). In addition, we need the following information so that we can send CAFRs that match your preferences:

- The types of CAFRs that you are willing to review (e.g., municipalities with revenues under \$250 million, school districts, stand-alone business-type activities)
- The months that you are available to review CAFRs
- Whether you are willing to review electronic CAFRs (either cd or web submissions)

What do I need to do to update my reviewer file?

Any changes in contact information, review preferences, or availability should be communicated to the staff of GFOA's Technical Services Center (e-mail srcreviews@gfoa.org; phone 312-977-9700).

How many CAFRs will I be asked to review each year?

Reviewers can expect to receive a maximum of two CAFRs during each month of availability. Reviewers who are unable to complete reviews because of special circumstances may ask to be placed on inactive status. Reviewers on inactive status should note that the Certificate Program's annually published results only include the name of SRC members who completed at least one review for the period.

Whom should I contact at GFOA if I have a question?

If you have a question about the receipt of a CAFR, the due date of a review, your preferences, or other administrative matters, you can contact GFOA by e-mailing srcreviews@gfoa.org or calling 312-977-9700. If you have a technical question about an issue in the CAFR or about how to grade a report, you can contact GFOA's professional staff by e-mailing srctechnical@gfoa.org or calling 312-977-9700.

How will I know when a CAFR is sent?

You should receive a CAFR each month that you are available to perform a review unless you have a review outstanding. There is always the risk that a CAFR may be lost in transit between GFOA's office and an SRC reviewer's office or residence. If you do not receive a CAFR when you expect one, please notify GFOA of that fact.

What will I receive when a CAFR is sent?

When SRC members receive a CAFR, they also receive:

- A copy of the comments provided to the government, if the government submitted its CAFR to the program during the immediate prior fiscal year.

How much time do I have to complete the review?

Normally reviews are due three weeks after the CAFR is sent to reviewers. However, a SRC member may request additional time to complete the review by e-mailing srcreviews@gfoa.org or calling 312-977-9700.

Are there any limitations on the type of CAFRs that a SRC member can review?

SRC members are not eligible to review the CAFRs of governments from their own state. Likewise, auditors are not eligible to review CAFRs audited by their own firm. If a CAFR fitting either of these two situations is erroneously sent to you, please notify GFOA staff immediately and return the entire report package, including the CAFR itself, to GFOA as indicated above.

What should I do if I find myself unable to complete a review on schedule?

If you find yourself unable to complete a review on schedule, you should contact GFOA staff for an extension. Extensions normally are given for one week, but may extend longer, depending upon the specific circumstances of the CAFR and the reviewer. *In no event should you perform a review of a CAFR more than 30 days after the initial deadline without contacting GFOA* because staff may have made alternative arrangements to ensure the timely processing of the CAFR.

If for some reason you know that you will not be able to complete a review on a timely basis. Please do the following:

- Notify Technical Services Center staff (e-mail srcreviews@gfoa.org or phone 312-977-9700) so that the CAFR can be assigned to another reviewer, and
- Send back the entire review package, ***including the CAFR itself***, to GFOA's Technical Services Center (203 North LaSalle Street, Suite 2700, Chicago, Illinois, 60601).

What do I need to do once I complete my review of a CAFR?

Once you complete your review, please prepare a narrative indicating any deficiencies noted during your review along with references to page numbers in the CAFR and a vote page indicating whether the Certificate of Achievement for Excellence in Financial Reporting should be awarded to the government. Note that it is not necessary to reference the specific question on the reviewer guidelines or preparer checklist to which the deficiency relates.

Electronic vote pages and guidelines for completing your review can be found under the heading Award Programs in Certificate of Achievement for Excellence in Financial

Reporting section of GFOA's website. Please send your vote page and a narrative with your comments to srcreviews@gfoa.org or mail to GFOA, 203 North LaSalle, Suite 2700, Chicago, Illinois 60601.

Reviewers are reminded that the results of all reviews should be kept strictly confidential.

What should I do if I am not receiving CAFRs?

If for any reason you are *not* receiving CAFRs to review on a regular basis, please contact the staff of GFOA's Technical Services Center immediately (phone 312-977-9700; or e-mail srcreviews@gfoa.org). Disruptions in the assignment of CAFRs to SRC members may occur for a variety of reasons (e.g., changes in employer or address that are not communicated to GFOA staff, failure of inactive SRC members to notify GFOA staff of their desire to return to active status). Also, brief interruptions in CAFR assignments may occur as the Certificate Program converts from processing one fiscal year end's submissions to another's.

What do I need to do if I wish to obtain a copy of the comments and suggestions for improvement provided to a government whose CAFR I reviewed?

GFOA can provide SRC reviewers with a copy of the comments and suggestions for improvement made to a government whose CAFR they reviewed. If you check the box on the vote page that indicates that you would like a copy of the comments provided to the government, the comments will automatically be sent to you when the review process is completed. If you do not receive the comments, you can request comments by e-mailing srcreviews@gfoa.org. GFOA staff must, of course, await the completion of the entire review process before comments and suggestions for improvement can be issued; therefore, reviewers should expect to wait anywhere from eight to ten weeks to receive a copy. ***Once again, reviewers are reminded that the results of all reviews must be kept strictly confidential.***

Is there an opportunity to meet other SRC members?

Although there are no formal meetings for members of the SRC, attendees at GFOA's annual conference can obtain a sticker identifying them as SRC members for their conference badge. This will allow SRC members to identify other SRC members.

Performing the Review

What is the goal of the review?

The goal in reviewing a comprehensive annual financial report (CAFR) submitted to the Certificate Program is to determine whether that CAFR *substantially complied* with program requirements and to offer suggestions for eliminating GAAP reporting deficiencies. The program's focus is on excellence, not perfection.

What is the best way to review a CAFR?

There may be as many ways to review a CAFR effectively as there are reviewers. Some reviewers use the reviewer guidelines for expedited reviews as an agenda for tracking down information in the CAFR. Others prefer to use the preparer checklist as a means of identifying reporting deficiencies. Note that these documents are available in the *Award Programs* section of GFOA's website. Some reviewers read through the CAFR without using either of the above questionnaires. When the review is completed, only a narrative noting deficiencies and the page number in the CAFR and the vote page is needed. (See the sample SRC review at the end of this document.)

Sometimes the meaning or interpretation of a question on the guidelines or checklist may not be immediately clear to a reviewer, even after consulting the references provided in parentheses following each question. In most such cases, an explanation of the question will be found immediately following the question. If this explanation is not satisfactory, or if you have questions about a checklist question for which no such explanation is provided, please feel free to contact GFOA staff for additional information (phone 312/977-9700; e-mail srcetechnical@gfoa.org).

Why did GFOA develop the Reviewer Guidelines for Expedited Reviews?

GFOA has prepared a comprehensive checklist for preparers of CAFRs. GFOA professional staff use that checklist to perform a detailed review of every CAFR submitted to the program. A substantial number of the questions on the checklist address purely factual matters or formatting issues that can be resolved easily and objectively during the staff review. SRC members are welcome, of course, to use that same comprehensive checklist to perform their own reviews for the Certificate Program. Alternatively, GFOA has prepared the *Guidelines for Expedited Reviews* for the benefit of SRC members who prefer to focus their limited time on the more substantive aspects of the CAFRs they are to review, with the full assurance that other more routine aspects will be fully covered as part of the staff review.

How do I rate a CAFR that I have reviewed?

SRC members are asked to rate a CAFR as "acceptable" or "unacceptable" in each of a number of specific grading categories listed on the vote page. A category should be rated "unacceptable" in either of the following situations:

- There are one or more deficiencies involving potentially disqualifying (i.e., "asterisked" items) or
- There are *numerous, significant* deficiencies involving non-asterisked items.

After providing a rating for each category, the reviewer should then make an overall judgment as to whether a CAFR has substantially complied with Certificate Program requirements and mark either the box labeled "A Certificate of Achievement should be granted" or the box labeled "A Certificate of Achievement should not be granted" on the vote page.

What is meant by “substantial” compliance with Certificate Program requirements?

As noted earlier, the Certificate Program aims at determining whether a given CAFR has *substantially* complied with program requirements. As a practical matter, failure to achieve substantial compliance is evidenced when the participant has received a “no” in regard to a potentially disqualifying (i.e., “asterisked”) item.

It should be noted that a CAFR may be denied, *in rare instances*, because of the presence of a significant and potentially misleading deficiency that is not specifically addressed on the checklist.

What happens after GFOA receives an SRC member’s review?

When GFOA receives a review, staff enters the fact that the review was received so the SRC member receives credit for the review. The SRC member’s comments and vote page are then matched with the staff copy of the CAFR. A staff member completes an initial review that includes the comments of the SRC member. A senior staff member then completes a review and finalizes the comments that are sent to the government.

Who determines whether a CAFR substantially complies with Certificate Program requirements?

SRC members have the responsibility of determining whether a CAFR substantially complies with Certificate Program requirements. Indeed, as a matter of program policy, the Certificate of Achievement may not be awarded to a CAFR if an SRC member reviewing that CAFR votes for denial.

What is a “qualified” award?

In certain specific circumstances, participating governments may be awarded the Certificate of Achievement even though their CAFR contains one or more *potentially* disqualifying items. In such cases, GFOA formally notifies the government submitting the CAFR (as part of the comments and suggestions for improvement) that failure to rectify one or more specified items will probably result in a denial of an award in the subsequent year. Such a “qualified” award is otherwise indistinguishable from a regular award of the Certificate of Achievement. That is to say, only the officials submitting the CAFR are aware of the qualified nature of the award.

When are qualified awards given?

Qualified awards normally are given *only to successful, ongoing program participants* in one of the following specific situations:

- The potentially disqualifying item was present in the prior year’s CAFR, but did *not* receive a comment (i.e., the item was overlooked).
- The potentially disqualifying item was present in the prior year’s CAFR and received a comment, but that specific comment did *not* result in a qualification.

- The potentially disqualifying item is unique to the current year’s CAFR (i.e., it did not appear in the prior year’s CAFR), but it is not so inherently misleading as to require an immediate denial.
- The potentially disqualifying item relates to the implementation of a new authoritative pronouncement in the first year of its implementation.

These exceptions reflect the following basic program principles:

- Successful, ongoing participants have already demonstrated, at least once, that they have met the basic threshold of substantial compliance with Certificate Program requirements.
- The Certificate Program is designed to be educational, with a focus on *improving* financial reporting. It is more likely that an ongoing participant will make needed improvements if that participant remains in the program. Indeed, making a government’s continued successful participation in the Certificate Program conditional upon the implementation of needed changes is a powerful stimulus for timely change. Conversely, once the award has been lost, a government may be disinclined to continue in the program, and consequently may have little incentive to effect needed improvements.
- Program participants should not have to face a “moving target.” That is to say, a government that has responded appropriately to the comments and suggestions for improvement related to its prior year’s CAFR should reasonably be able to expect that it will receive the award again in the following year.

Are qualified awards ever given to governments that are not successful, ongoing participants in the Certificate Program?

Qualified awards are never given to a government that has a serious reporting deficiency in the basic financial statements for the government’s first submission to the program. However, if a government submitted the prior year’s CAFR to the Certificate Program, but did not receive the award, a qualified award may be given if that government responded appropriately to the comments and suggestions for improvement made in connection with the prior year’s CAFR. Even so, a qualified award need *not* be given if the prior year’s CAFR was so seriously deficient that it was not reasonably possible for the prior year’s comments and suggestions for improvement to be comprehensive. Also, a qualified award may be given to a new program participant for a serious deficiency that is not in the basic financial statements (e.g., the omission of budgetary comparison schedules for nonmajor special revenue funds in the combining and individual fund section of the CAFR).

Can a government receive a qualified award in successive years?

A government may receive a qualified award in successive years for the following reasons:

- The potentially disqualifying item in the current year’s CAFR is different from the potentially disqualifying item in the prior year’s CAFR

- The government is able to satisfactorily explain its failure to fully correct the potentially disqualifying item (e.g., a reasonable misunderstanding regarding the specific correction needed). In that case, a second qualification may be issued for the same potentially disqualifying item *if the government provides written assurance that the potentially disqualifying item will be corrected in the following year's CAFR.*

How does the possibility of a qualified award affect the SRC reviewer in voting toward or deny the Certificate of Achievement?

SRC reviewers should *not* consider the possibility of a qualified award in casting their initial vote to award or deny a certificate. Rather, reviewers should focus solely on whether the CAFR they are examining does or does not substantially conform to program requirements. It is the responsibility of GFOA staff to review all votes for denial to determine whether a qualified award would be more appropriate in the circumstances. If such a determination is made, GFOA staff will contact the reviewers who cast a negative vote to obtain their concurrence.

Why do GFOA staff members sometimes contact reviewers to discuss the possibility of changing a reviewer's vote?

A certificate may *not* be awarded to a CAFR if a SRC member who reviewed it vote to deny the award. At the same time, it is essential that all awards and denials be consistent with established program policy. To ensure consistency, GFOA staff may contact an SRC reviewer in any of the following circumstances:

- The reviewer's vote to deny is based upon a factual mistake (e.g., the supposed absence of information that is actually present in the CAFR)
- The reviewer's vote to deny is not based upon one or more potentially disqualifying (i.e., "asterisked" items.
- The reviewer's vote to deny is based upon a situation that meets the criteria for a qualified award.
- Staff obtained additional information from the government that clarifies a potential disqualifying item.

In any of these cases, GFOA staff will explain the situation to the SRC reviewer and request that the reviewer consider changing the original "vote to deny" to either a "vote to award."

Likewise, an award cannot be denied without the approval of at least one SRC member. In this case, staff will contact a reviewer and ask the reviewer to look at a specific item(s) in the CAFR and to consider changing the original "vote to award" to a "vote to deny."

What happens if an SRC member is unwilling to change his or her vote after a discussion with GFOA staff?

GFOA staff is not empowered to issue an award over the denial of an SRC member. However, if GFOA staff members, after discussing the matter with the SRC member, are still persuaded that a denial would be inconsistent with program policy, they may appeal the matter to the chair of the Special Review Executive Committee (SREC), which has been entrusted by GFOA's Executive Board with responsibility for overseeing the operation of the Certificate program. The SREC chair, either alone or with the assistance of other SREC members, will then review the case and either affirm or overrule the SRC member's vote. The decision of the SREC chair is final.

Why are some of my comments on the CAFRs I review sometimes not included in the comments and suggestions for improvement furnished to program participants?

There are several reasons why a reviewer's comments may not be included in the comments and suggestions for improvement furnished to program participants:

- Similar types of errors may be aggregated into a single comment. For example, if a CAFR contains numerous mathematical mistakes, only a few illustrations of the problem will be presented in the comments and suggestions.
- Sometimes SRC comments are based upon factual mistakes (e.g., "missing" disclosures that are not required by the government's specific circumstances such as the absence of the disclosure that fiduciary funds are excluded from the government-wide financial statements in the CAFR of a government that does not have any fiduciary funds) or the incorrect application of generally accepted accounting principles (e.g., a suggestion to include the disclosures for agent-multiple employee pension plan when the plan really is a cost-sharing plan)
- Sometimes a SRC member may raise issues that were already raised and settled in the past (e.g., the program may have recommended that a government "consider" a particular accounting treatment that is *not* required by either generally accepted accounting principles or Certificate Program policy and the government has formally declined to implement the recommendation).
- An SRC member may have been so tardy in completing a particular review that final results had to be released without the benefit of that member's review.
- Sometimes the sheer volume of comments provided to a government will preclude comments on minor deficiencies.
- Staff may obtain additional information that was not available in the CAFR that makes the SRC member's comment not applicable to the situation.
- The SRC member's comment may be a recommendation, but not a requirement of GAAP or the COA.

- The SRC member's comment may be correct under current GAAP, but new guidance has been issued which will change the requirements. Comments are generally not provided to a government that will cause a deficiency under the new guidance even if the current CAFR contains a deficiency.

What happens if a government appeals the decision not to award the Certificate of Achievement?

As noted previously, the Certificate of Achievement is *not* awarded to a CAFR if one or more SRC members reviewing the CAFR vote for a denial. An unsuccessful program participant, however, has the right to appeal a denial. Normally the grounds used for an appeal are that the reviewer(s) overlooked or incorrectly interpreted one or more important facts related to the situation that resulted in the denial. Accordingly, a government appealing a denial is asked to furnish in writing whatever additional information or commentary is needed to resolve the alleged misunderstanding. This documentation is passed on by GFOA staff to the same reviewer(s) who initially voted to deny the award. If they are persuaded by the additional information, the appeal is deemed successful and an award is made. If not, the denial stands. The SREC chair, however, reserves the right to review any appeal that is denied, if requested to do so by GFOA staff. The decision of the SREC chair on all appeals is final.

What format should be used to provide the results of the review to GFOA?

The reviewer should complete a vote page and provide a **narrative description** of the deficiencies noted during the review. The vote page may be found at www.gfoa.org/coa.