

**STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL**

GAAP CLOSING PROCEDURES MANUAL

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1.1 ACCOUNTING STANDARDS

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles (GAAP) for governments consist of written authoritative standards issued by officially designated standard-setting organizations. Currently in the United States, the designated organizations are:

- o The Governmental Accounting Standards Board (GASB) created in 1984.
- o The Financial Accounting Standards Board (FASB) created in 1973.

The industry audit guides that the American Institute of Certified Public Accountants (AICPA) issues also are part of GAAP. The AICPA has played a key role in setting accounting standards for more than one hundred years.

The Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers' Association (GFOA) has been involved for many years in encouraging governments to adhere to high standards of financial reporting. The GFOA awards its prestigious Certificate of Achievement for Excellence in Financial Reporting to governments who meet its standards.

To apply for the Certificate, a government must issue an audited Comprehensive Annual Financial Report (CAFR) no later than six months after the end of its fiscal year. Recipient governments must meet many other stringent reporting standards as well.

In August 1989, South Carolina became the thirteenth state government to receive the GFOA Certificate of Achievement for Excellence in Financial Reporting. That award was based on the State's 1988 CAFR. South Carolina has received the award every year since that time.

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Many cities, counties, and special districts--including several within South Carolina--also hold the Certificate.

Sources of GAAP

Many of the accounting and financial reporting standards that apply to governments appear in:

- o *Codification of Governmental Accounting and Financial Reporting Standards (Statement 34 Edition)*, Governmental Accounting Standards Board (GASB), 2001-2002, updated through June 30, 2001. A book of original GASB pronouncements is also available. To obtain a copy of the Codification, Original Pronouncements, or any GASB statement (including GASB Statement No. 34), implementation guide (including the *GASB 34 Implementation Guide*), interpretation, or technical bulletin, and/or related cost information, telephone the GASB at 1-800-748-0659, fax them at 1-203-847-6045 (Attention: *GASB Publications*), or visit them on the Internet at <http://www.gasb.org>. Send order payments by check to the following address:

Order Department
Governmental Accounting Standards Board
P.O. Box 30784
Hartford, CT 06150

Send payments by VISA or Master Card to the following address:

Order Department
Governmental Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, CT 06856-5116

- o *Audits of State and Local Governmental Units (ASLGU)*. [NOTE: This publication is currently undergoing a major revision to reflect the new financial reporting model. The new edition is expected to be available in September 2002.] To obtain a copy of this or any other AICPA publication and/or related cost information, telephone the AICPA at 1-888-777-7077, fax them at 1-800-362-5066, visit them on the Internet at <http://www.aicpa.org>, or write to them at the following address:

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Order Department
CPA2Biz
Post Office Box 2209
Jersey City, NJ 07303-2209

- o *Certificate of Achievement Checklist–New Financial Model*, Government Financial Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting (revised annually). The checklist for the 2002 fiscal year is available on the Internet at <http://www.gfoa.org/forms/>. In 2001, the GFOA also issued a new edition of its extensive hardcover publication, *Governmental Accounting, Auditing, and Financial Reporting* (also known as the *GAAFR* or the *Blue Book*). The new edition corresponds to the new financial reporting model that South Carolina has adopted for its fiscal year ended June 30, 2002. The GFOA still sells the old edition of the *Blue Book*, but it is not useful to states and other large governments. To purchase any GFOA publication, telephone them at 1-312-977-9700, fax them at 1-312-977-4806, visit them on the Internet at <http://www.gfoa.org>, or write to them at the following address:

Government Finance Officers Association
203 North LaSalle Street, Suite 2700
Chicago, IL 60601-1210

A number of the financial reporting standards issued by the Financial Accounting Standards Board (FASB) now apply to the government-wide financial statements of governmental organizations. To obtain any FASB publication, telephone them at 1-800-748-0659, visit them on the Internet at <http://www.fasb.org>, or send an order by mail to the following address:

Order Department
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, CT 06856-5116

Payments by VISA or Master Card are accepted.

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1.2 THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

What Is a Comprehensive Annual Financial Report (CAFR)?

Generally Accepted Accounting Principles (GAAP) require that each government produce a Comprehensive Annual Financial Report (CAFR). GAAP prescribe the format and content of the CAFR in detail.

- o A CAFR is comprehensive; that is, a CAFR reports on *all* of the government's funds and component units as well as all of its governmental and business-type activities.
- o A CAFR is an annual report; that is, it covers a single fiscal year.
- o A CAFR primarily consists of financial data (although it also must include certain non-financial data).
- o A CAFR is a financial report; that is, it includes more than a mere set of financial *statements*.
- o Independent auditors must audit a CAFR.

A CAFR includes information prepared on a full accrual basis for all of the government's governmental and business-type *activities* as well as full accrual or modified accrual information for all of the government's governmental, enterprise, internal service, trust, and agency *funds*. The full and modified accrual bases of accounting differ significantly from the budgetary basis of accounting. (A CAFR also includes budgetary-basis information, but that information may be presented as *required supplementary information* rather than as part of the *basic financial statements*.)

What Is In a CAFR?

At a minimum, a CAFR includes three major sections:

- o The introductory section, including: a table of contents, a list of principal officials, an organization chart, and a letter of transmittal.
- o The financial section, including: management's discussion and analysis, the independent auditor's report, basic financial statements, required supplementary information (in addition to management's discussion and analysis, which also qualifies as

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required supplementary information), and other supplementary information (including combining and individual financial statements).

- o The statistical section, including ten-year comparisons of certain financial and statistical data.

Why Does South Carolina Need to Issue a CAFR?

Since 1983, South Carolina has had legislation requiring that the Comptroller General's Office work toward preparing statewide GAAP-basis financial reports. Section 59.2 of the 2001-2002 Appropriation Act states, in part:

The Comptroller General is directed, as the State Accounting Officer, to proceed ... so as to develop a reporting system that will result in the preparation of the official financial reports for the State of South Carolina by the State Accounting Officer in conformance with Generally Accepted Accounting Principles (GAAP). The Comptroller General, as the State Accounting Officer, is given full power and authority to issue accounting policy directives to state agencies in order to comply with Generally Accepted Accounting Principles. The Comptroller General is also given full authority to conduct surveys, acquire consulting services, and implement new procedures required to fully implement Generally Accepted Accounting Principles under the oversight of the General Assembly.

In today's world, the bond-buying public and the major bond-rating agencies demand convincing, timely evidence of a government's financial health. Good financial management practices and timely issuance of audited financial statements are key factors in a government's financial health. It is increasingly necessary to issue timely audited financial statements to compete with other states in the financial markets. Nearly all of the fifty states now issue audited statewide financial reports; at last count approximately 80% of the fifty states were regularly issuing CAFRs that had been certified as meeting the standards of the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program. That program's requirements are more stringent than GAAP in many respects.

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Good governments are sensitive to the need for accountability. Publication of an audited CAFR graphically demonstrates public accountability. In addition, publication of a CAFR helps to satisfy requirements of the United States Securities and Exchange Commission that governments issuing bonds make detailed financial data available to the public on a continuing basis.

The CAFR, prepared in accordance with GAAP, also provides statewide data to our State's decision-makers such as its legislators and managers. These decision-makers need the best financial data available to make informed decisions concerning our State's financial future.

Where Does South Carolina Stand?

South Carolina has received the GFOA's Certificate of Achievement for Excellence in Financial Reporting each year for more than a decade. When this is considered in conjunction with a long string of clean audit opinions on the statewide financial statements and very high bond ratings, it is clear that South Carolina has earned a place in the very top rank of states with respect to financial reporting practices. This outstanding record helps South Carolina to pay relatively low interest rates on its bonds and to enjoy an outstanding reputation among investors and bond rating agencies.

1.3 CLOSING PACKAGES--AN OVERVIEW

What Is a Closing Package?

This manual includes several *closing packages*. Each closing package:

- o Deals with a single area of accounting data.
- o Requires that certain agencies complete and submit forms to report year-end adjustments needed for GAAP.

At year-end, the Comptroller General's Office posts data from the completed forms to the State's GAAP-basis financial reporting system. Only then can the Comptroller General's Office close the State's *GAAP-basis* books. This is why we call the packages "closing packages."

Important features of closing packages include the following:

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- o Agencies complete closing packages for June 30 data only. That is, they report GAAP data only once a year.

- o Agencies complete only the closing packages that apply to them--not all packages. A Master Closing Package (see Section 2.0) makes it easy for agencies to determine which packages apply to them.

- o All closing packages have a similar format. Once you become familiar with the format, it is easy to locate specific information quickly.

The Format of a Closing Package

Each closing package includes most or all of the following sections in the following order:

- o PURPOSE AND OBJECTIVES.
 - Defines the scope of the package.

 - Briefly describes what area of accounting data the package addresses.

- o AGENCY ACTION REQUIRED.
 - Names the forms included within the closing package.

 - Lists due dates.

 - Briefly describes any action that agencies must take before they begin to complete this package.

- o KEY TERMS.
 - Lists technical accounting terms in alphabetical order with definitions.

 - Gives unusual or "local" definitions of words that apply only to the closing packages. (For this reason, it is important to read the definition of each key term--even if you already know the usual meaning of the term.)

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o ACCOUNTING PRINCIPLES AND POLICIES.

- Lists references to authoritative GAAP sources.
- Describes State accounting and reporting policies.
- Gives reasons why the forms summarize data in a particular way.
- Includes much data of interest only to "interested readers."

o WORKING PAPERS.

- Suggests documents you should keep for audit purposes.
- Suggests working papers you should prepare and keep to support information entered on closing package forms.

The following sections appear for each type of form:

o GENERAL INSTRUCTIONS.

- Gives overview instructions.
- Tells what to do before completing the form.
- Due dates.
- Gives other instructions that apply to the form as a whole.

o SAMPLE COMPLETED FORM.

- Includes numbers surrounded by parentheses beside each detailed data element.
- Shows completed data for a comprehensive, realistic case example (Agency A99, "Sample Agency").

o COMPLETING THE FORM.

- Gives specific instructions for completing each data element on the form.

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- Includes a reference number to the left of each instruction that matches a number surrounded by parentheses on the sample completed form.

Most closing packages also include a checklist to be completed by the person in your agency who *reviews* the closing package preparer's work.

The Format of a Closing Package Form

Like the closing packages themselves, the closing package forms all have a common format:

- o Each form has a heading to identify:
 - Your agency.
 - The person who prepared the form.
 - The person who approved the form (this should be the agency's Finance Director or Executive Director).
- o Summary forms may have columns for:
 - GAAP account code.
 - * The Comptroller General's Office has preprinted as much of the code as possible. Agencies can ignore these preprinted codes. They are for use of the Comptroller General's Office.
 - * Agencies may be asked to complete parts of the code.
 - Description.
 - Dollar amount.

Blank Closing Package Forms

The forms associated with each closing package are available in the form of an Excel workbook that you may download from the Internet. The individual forms are presented as separate *worksheets* within this workbook. You can complete the closing package forms on your computer, save them to your hard drive, then submit a signed printed copy to the Comptroller General's Office. The Internet link to the forms workbook

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is located just below the link to the instructions for each closing package.

Your Valuable Input

The Comptroller General's Office has tried to make the closing packages easy to read and consistent. Over the years, the Comptroller General's Office has incorporated many agency suggestions into the packages.

To propose additional improvements, please call the Central State Financial Reporting Division of the Comptroller General's Office.

The Master Closing Package

Agencies complete only those closing packages that apply to them. No agency (except Sample Agency, our comprehensive case example) will complete all closing packages. Most agencies, however, must complete the Closing Package Control Checklist (GAAP Form 2.0.1) in the Master Closing Package. (See Section 2.0, Master Closing Package.)

Completing the Closing Package Control Checklist will help you determine which of the other closing packages your agency must complete. The completed Checklist also will help the Comptroller General's Office to control the closing process and to be sure it has received all of the required closing data.

The Closing Package Control Checklist consists of several Yes/No questions. It should take the agency's finance director about one hour to complete it. Complete the Checklist and return it to the Comptroller General's Office on or before July 15 each year.

1.4 AGENCY TRAINING

Objectives of Training and Training Philosophy

The quality of the State's financial statements depends on the quality of the data that agencies submit on closing package forms. A key component of the Comptroller General's GAAP effort, therefore, is training for agency staff.

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Group training seminars in a formal classroom setting, such as those offered for a fee by many excellent local organizations, are well-suited to providing participants with general accounting education and staff development opportunities. The objective of closing package training, however, is much more limited: to ensure that closing packages are complete, accurate, and timely. Accordingly, the Comptroller General's Office has developed a training program to meet this narrow objective.

The training that the Comptroller General's Office provides focuses on providing participants with the necessary practical skills and knowledge to properly complete closing packages. It presents a bare minimum of accounting theory. The primary focus is on-the-job training tailored to meet each agency participant's special needs. The objective of such training is to ensure that all closing packages are complete, accurate, and timely.

The Comptroller General's Office Closing Package Training Program

The Comptroller General's Office's closing package training program includes the following components:

- o **Written Instructions:** The Comptroller General's Office publishes this manual, which includes full instructions for completing the closing package forms.

- o **Annual Updates and Summary of Revisions:** The Comptroller General's Office staff updates this manual annually to clarify or emphasize areas that have proved especially confusing or difficult to understand and to explain new requirements of generally accepted accounting principles (GAAP). The update is accompanied by a concise *Summary of Revisions* to help agency staff members quickly identify exactly what has changed.

- o **Individually Tailored Help and Training:** Help with matters relating to generally accepted accounting principles (GAAP) or completion of GAAP closing packages is only a telephone call away! If you have any questions:

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- First consult the GAAP Contacts listing prominently positioned on the Comptroller General's Office website to determine the appropriate staff person to call.

- Then call the telephone number listed. These telephone numbers normally connect you directly with the indicated staff person, but if that person is away from his/her desk, please leave a voicemail.

- If you have a detailed question, send an e-mail to the appropriate staff person.

If you need more help than a telephone call or e-mail can provide, make an appointment to visit the appropriate Comptroller General's Office staff member in person. *Please do not hesitate to use these valuable services.* They are available to agencies at no cost.

- o **Pre-audit Review/Follow-Up of Agency-Submitted Closing Packages:**
It is your agency's responsibility to submit error-free closing packages (see Section 1.7, Summary of Agency Responsibilities). The Comptroller General's Office staff, however, performs a limited review of most closing packages to identify certain types of potential errors. If you submitted your package on time, the Comptroller General's Office staff usually will try to perform this review and discuss potential problems with you *before* turning your package over to the statewide auditors. This provides you with an additional learning opportunity as well as a second chance to correct errors before the audit phase begins. Closing packages that arrive after the established due dates, however, generally must be provided to the auditors immediately upon receipt by the Comptroller General's Office.

- o **Personal Follow-Up on Audit Findings Related to Closing Packages:**
If your agency auditors or the statewide auditors find errors in one or more of your closing packages, you will probably receive one or more follow-up calls from the Comptroller General's Office staff. The objective of these follow-up contacts is to help ensure that agencies learn from their errors and do not repeat them.

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- o **Classroom Training In Exceptional Circumstances:** Unfortunately, the Comptroller General's Office does not have sufficient internal resources to provide classroom training to agency accountants on a regular, recurring basis. When major changes occur in the State's financial accounting systems, however, the Comptroller General's Office has obtained consultant assistance in developing and delivering training specifically targeted to help ensure the success of these major financial reporting transitions. For example, the Comptroller General's Office sponsored classroom training sessions for agency accountants before the State produced its first GAAP financial report in 1987 and again when the State adopted the new financial reporting model (known as GASB 34) that the Governmental Accounting Standards Board required states to adopt in 2002.

In addition, the Comptroller General's Office strongly encourages agency accountants to take advantage of formal classroom training courses that various accounting organizations offer regarding GAAP. The following local organizations periodically provide excellent, low-cost training courses:

- o Government Finance Officers
Association of South Carolina
Post Office Box 280334
Columbia, SC 29228
<http://www.state.sc.us/gfoa/index.htm>

- o South Carolina Association of
Certified Public Accountants
570 Chris Drive
West Columbia, South Carolina 29169
In-state telephone: (888) 557-4814
Fax: (803) 791-4196
<http://www.scacpa.org/>

Many of the State's universities, colleges, and technical education centers also offer excellent accounting courses.

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1.5 CLOSING PACKAGE DUE DATES

The due dates for the various closing packages are shown in chronological order in the table at the end of this section. The Comptroller General's Office suggests that agencies complete the packages in the order shown.

Agencies are encouraged to submit closing packages *before* the deadlines when it is feasible to do so. This helps the financial reporting staff in the Comptroller General's Office to keep the CAFR preparation process on target.

Section Reference	Name of Closing Package	Due Date*
2.0	Master Closing Package	July 15
3.1	Cash and Investments Closing Package	July 31
3.17	Compensated Absences Closing Package	July 31
3.13	Litigation Closing Package	August 1
3.14	Grant Disallowances Closing Package	August 1
3.16	Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Closing Package	August 15
3.2	Tax Revenues Closing Package	August 31
3.4	Miscellaneous Revenues Closing Package	August 31
3.5a	Loan Receivables Closing Package	August 31
3.5b	Refund Receivables Closing Package	August 31
3.6	Inventory Closing Package	August 31
3.19	Operating Leases Closing Package	August 31
3.20	Operating Leases--Lessor Closing Package	August 31
3.12	Accounts Payable Closing Package	September 15
3.18	Interfund Payables Closing Package	September 15
3.3	Grant/Contribution Revenues Closing Package	September 30
3.8	Capital Assets Overview Closing Package	September 30
3.9	Capital Assets and Accumulated Depreciation Closing Package	September 30
3.10	Capital Assets Additions Closing Package	September 30
3.11	Capital Assets Intra-State Transfers Closing Package	September 30
3.15	Claims Closing Package	September 30

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*If the stated due date falls on a weekend or holiday, the package is due the next working day. THE COMPTROLLER GENERAL'S OFFICE DOES NOT GRANT EXTENSIONS OF THESE DUE DATES.

1.6 AN OVERVIEW OF THE GAAP CLOSING PROCESS

What Role Does STARS Play in the GAAP Process?

The accounting transactions and balances that agencies record in the Statewide Accounting and Reporting System (STARS) form the starting point for South Carolina's GAAP accounting process. In preparing the State's CAFR, the Comptroller General's Office uses data from the Statewide Accounting and Reporting System (STARS) to the greatest extent possible but obtains information for necessary GAAP-basis adjustments from agencies on "closing package" forms at the end of each fiscal year. (See Section 1.3, Closing Packages—An Overview.) The Comptroller General's Office uses this year-end data to adjust STARS amounts to a GAAP basis. The adjusted amounts appear only in the GAAP-basis financial statements, not in the State's budgetary-basis reports.

A different methodology applies to most of the State's larger business-type activities and funds that are governed by accounting rules that differ in significant respects from typical governmental activities/funds. For these activities and funds, the Comptroller General's Office obtains most of the GAAP financial data it needs from separately audited agency financial statements rather than from STARS.

The Importance of Timeliness in Financial Reporting

In 1987, the Governmental Accounting Standards Board (GASB) issued Concepts Statement No. 1 entitled *Objectives of Financial Reporting*. Paragraph 66 states:

If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had. In some instances, timeliness may be so essential that it may require sacrificing a certain amount of precision or detail. Sometimes a timely estimate is more useful than precise information that takes a long time to produce.

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Timeliness is essential because:

- o The State's three bond rating agencies have made it clear that they expect to receive South Carolina's audited financial statements within six months after the end of the fiscal year.
- o The Certificate of Achievement for Excellence in Financial Reporting Program sponsored by the Government Finance Officers Association likewise emphasizes timeliness. Applications for the Certificate must be postmarked no later than six months after the end of the fiscal year. A copy of the government's published audited CAFR must accompany the application.

South Carolina issues its audited CAFR no later than December 31 each year. **Consequently, the Comptroller General's Office staff cannot (and does not) grant "extensions" of the established closing package deadlines.**

The Closing Process—Agencies

The annual GAAP closing process begins June 30 with the end of the fiscal year. The Comptroller General's Office publishes blank closing package forms and an update of this manual on its website at that time. Agencies can begin completing some of the closing packages soon after June 30. They may not be able to complete others until September.

Each agency should complete only the forms that apply to it. The Closing Package Control Checklist will help your agency's chief financial officer determine which of the packages to complete. (See Section 2.0, Master Closing Package.)

The Closing Process—Comptroller General's Office

The Comptroller General's Office uses Series Z, an automated financial reporting package, to compile the statewide financial statements. An automated computer interface translates STARS balances into Series Z at the end of STARS Fiscal Month 13. Beginning in July, the staff of the Comptroller General's Office prepares the financial statements and the related notes. They:

- o Prepare Series Z input forms for:

- Amounts submitted on closing package forms.

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- Agency financial statement amounts (for universities, colleges, and certain other agencies).

- Other adjusting journal entries resulting from an analysis of STARS transactions.

- o Post this input into Series Z.

- o Rearrange Series Z output into proper CAFR format.

- o Draft notes to the financial statements, and other required narrative for the CAFR.

- o Update CAFR statistical tables with current-year data.

- o Prepare the CAFR for printing.

Audit of the State's CAFR

Meanwhile, the audit of the CAFR is in progress. The auditors of the State's CAFR perform some of their work based on a review of data and procedures within the Comptroller General's Office. They also review closing package forms and the supporting working papers prepared by State agencies. Agencies are responsible for maintaining working papers to support data on closing package forms. (Also see Section 1.7, Summary of Agency Responsibilities, and Section 1.8, Working Papers.)

The Finished Product

To meet established deadlines, the final audited CAFR must go to the printer in early December. The Comptroller General's Office normally sends a copy of the published CAFR to each agency's Finance Director in January or February.

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1.7 SUMMARY OF AGENCY RESPONSIBILITIES

General Responsibilities

Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are:

- o Accurate and completed in accordance with instructions.
- o Complete.
- o Timely.

It is important that the *approved* line on each closing package form bear the signature of the agency's Finance Director or Executive Director. The person signing a closing package form's *approved* line must be someone different from the person who prepared the form. Auditors will expect these to be *live* signatures--not rubber stamped or typewritten.

Objective: Error-Free Closing Packages

The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors tends to cast doubt on the adequacy of the State's internal control structure to detect and correct errors.

All errors are avoidable. We all must work together to implement procedures that keep closing package errors to an absolute minimum. No one expects perfection, but we must vigorously *strive* for perfection in order to be sure that we achieve adequacy. An adequate internal control system includes safeguards to ensure that *your agency* detects and corrects its own closing package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's system of internal control could be stronger.

PLEASE MAKE ACCURATE CLOSING PACKAGE PREPARATION A HIGH PRIORITY IN YOUR AGENCY; OUR STATE'S GOOD FINANCIAL REPUTATION DEPENDS ON IT!

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Taking the time to initially prepare accurate and complete closing packages also can yield other direct benefits to you. For example, it can save you from the personal embarrassment of having others discover your errors and from the extra time needed to:

- o Prepare and submit corrected closing packages.
- o Respond to auditor management letter comments and minor audit findings.

The following are some practical suggestions for minimizing closing package errors:

- o Assign the right people to prepare and review closing packages and give them everything they need to do a good job. Agency employees assigned to complete closing packages should:
 - Be thoroughly familiar with the agency data required to be reported on the closing package.
 - Have access to the current-year versions of the forms and instructions and any other materials needed to properly carry out their assignments.
 - Have access to copies of the completed packages from previous years.
 - Take full advantage of the Comptroller General's closing package training program (see Section 1.4, Agency Training).
 - Completely understand their assignments.
 - Be given adequate time to properly complete their assignments.
- o Perform an effective review of each completed closing package and the underlying working papers. A supervisory employee should perform a review that includes the following steps:
 - Gain a thorough understanding of the closing package instructions printed in the appropriate section of this manual.

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- Complete the reviewer's checklist described at the end of the closing package instructions in accordance with the instructions printed there.

- Thoroughly review the methodology used in compiling closing package data. For example, the reviewer should answer the following questions:
 - * Has the closing package data been derived from the *best* available agency source?

 - * Has every appropriate amount been reported? (Is the closing package form complete?)

 - * Has any amount been reported inappropriately?

 - * Is the methodology based on any assumptions? If so, are the assumptions necessary and reasonable and fully documented?

 - * Do the working papers adequately explain how the information was compiled? (Could a knowledgeable accountant or auditor reconstruct the closing package data without verbal explanations if given access to agency accounting records, working papers, and the closing package instructions?) Preparation and maintenance of working papers is a primary responsibility of each agency. (Also see Section 1.8, Working Papers.)

- Compare the current-year closing package amounts to last year's amounts and identify any significant variances. Determine whether there are logical reasons for these variances.

- Verify that key relationships between closing packages are maintained. For example, if certain equipment purchases represent accounts payable at June 30, do your capital assets closing packages properly report the related capital assets? (This is especially important in large agencies where several agency staff members prepare different closing packages.)

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-- Trace all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself.

-- Repeat arithmetic computations in working papers and on the closing package itself to identify any arithmetic errors.

The person who performs the review and signs the closing package's Reviewer Checklist must be someone different from the person who prepared the form(s) being reviewed. The reviewer may be the person who signed on the form's *approved* line or may be a person whose signature does not appear on the form(s) being reviewed.

- o **Learn from your errors.** When you discover errors, ask yourself whether your discovery was accidental or the result of good internal controls. If accidental, ask yourself what *additional* internal controls you could implement to help prevent similar errors in the future. Then implement these controls.
- o **Take auditor recommendations seriously.** Closing packages are only as accurate as the agency accounting systems from which the source information is derived. It is important, therefore, for agencies to implement auditor suggestions for improving these systems.

Objective: No Late Closing Packages

Section 1.5 of this manual includes a list of closing package due dates. If an emergency will prevent your agency from submitting data by the required date, please call the Central State Financial Reporting Division of the Comptroller General's Office as soon as possible. The Comptroller General's Office staff, however, cannot grant "extensions" of these deadlines.

In accordance with guidelines published by national bond-rating organizations and the Government Finance Officers' Association, the State's policy is to issue its Comprehensive Annual Financial Report (CAFR) to the public no later than six months after the end of the fiscal year. Such timely publication of the CAFR cannot be assured if some packages are not received by the stated deadlines.

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1.8 WORKING PAPERS

Purpose of Working Papers

Agencies should keep working papers to support each amount they enter on each closing package form. Agencies should not send copies of their working papers to the Comptroller General's Office with the closing package forms unless specifically instructed to do so. Auditors may review some or all of your working papers.

General Suggestions

- o Working papers should be neat, legible, complete, accurate, and logically organized.
- o Each working paper should indicate the purpose for which it was prepared.
- o Your working papers should clearly support the conclusion(s) you reached and the amounts you entered on closing package forms.
- o Each working paper should bear the name or initials of the preparer and the preparation date.
- o Use standard formats for working papers where appropriate.
- o Systematically index your working papers. That is, assign a unique identifier (index) to each working paper. Write each working paper's index in a standard position on the page—such as the bottom right. Cross-reference data among working papers when appropriate by referring to the appropriate index.

The agency's Finance Director is responsible for keeping all working papers until the audit of the statewide financial statements is complete. Include a copy of each completed closing package form with the working papers.

1.9 STARS CODES AND GAAP CODES

STARS Codes

STARS is:

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- o The State's operating accounting system.
- o The State's legal-basis accounting/reporting system.

The STARS system does a very good job of accounting and reporting for revenues and expenditures on the budgetary basis of accounting.

STARS codes include:

- o Subfund codes.
- o Object codes for revenues and expenditures.
- o Agency codes.
- o Project codes for permanent improvement projects.

STARS codes:

- o Facilitate budgetary-basis accounting and reporting.
- o Help ensure compliance with:
 - The Appropriation Act.
 - The Statewide Permanent Improvements Reporting System (SPIRS).
 - Specific laws that require segregation of certain balances and special reporting.

GAAP Code Requirements

STARS codes are not very useful for GAAP because:

- o GAAP reports are highly summarized; STARS codes are too detailed and too numerous for meaningful GAAP reporting.
- o STARS codes summarize amounts for legal purposes; GAAP categories often are totally different.
- o Legal definitions of STARS codes sometimes conflict with GAAP definitions. (For example, some permanent improvement projects are considered to be capital projects in STARS even though they do not meet the GAAP definition of capital projects.)

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The Comptroller General's Office, therefore determined what codes and groupings of codes would be needed for GAAP reporting of:

- o Funds.
- o Expenditures.
- o Revenues.
- o Permanent improvement project activity.

The Comptroller General's Office then developed tables to translate STARS codes into GAAP codes.

Overview of the Translation Process

The translation tables are Appendixes in this manual. (See Sections 6.1 through 6.7.) There are fewer GAAP codes than STARS codes. In many cases, therefore, several STARS codes translate into a single GAAP code.

Agencies must summarize their data on closing package forms using GAAP codes—not STARS codes. This minimizes the amount of data that agencies must provide to the Comptroller General's Office. It also minimizes the amount of data entry needed to produce GAAP reports.

To complete the GAAP summary forms, agencies generally must perform the following steps for each GAAP code:

- o Use the Appendixes to determine which STARS codes correspond to that GAAP code.
- o Summarize the accounting amount(s) for the STARS codes.
- o Enter the GAAP code and the summarized amount(s) onto the closing package form in the appropriate blank(s).

STARS Subfunds and GAAP Funds

General Information

GAAP requires governments to use funds for accounting and reporting. Each fund is a self-balancing set of accounts.

STARS uses over 2,000 *subfunds*. Subfunds exist primarily for *legal* accounting and reporting purposes. Likewise, STARS fund, fund group, and fund detail codes serve primarily legal (not GAAP) purposes.

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The State's GAAP-basis financial statements use fewer than one hundred funds. The Comptroller General's Office, therefore, has assigned each STARS subfund to an appropriate GAAP fund. Closing package forms require agencies to summarize data using GAAP funds rather than STARS subfunds.

Appendix A (Section 6.1) shows the relationship between your agency's STARS subfunds and GAAP funds. Each GAAP fund includes one or more subfunds.

GAAP Fund Codes

GAAP fund codes have four digits. Each four-digit GAAP fund code has two components:

- o The first digit indicates the fund's budgetary/STARS status:
 - 1 = Budgetary General Fund.
 - 2 = Budgetary Earmarked Fund.
 - 3 = Budgetary Restricted Fund.
 - 4 = Budgetary Federal Fund.
 - 7 = Unbudgeted.
 - 8 = Budget is on STARS but the corresponding actual revenues/expenditures are not completely on STARS.
- o The last three digits indicate a particular column on the State's combining financial statements.

GAAP Fund Categories

The State's basic financial statements summarize the GAAP funds into various groupings. In accordance with GAAP, the State categorizes its funds into the following groupings:

- o Governmental Funds.
 - The General Fund.
 - Special Revenue Funds.
 - Capital Projects Funds.
 - Debt Service Funds.
 - Permanent Funds.

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- o Enterprise Funds.
- o Internal Service Funds
- o Trust Funds
 - Private-Purpose Trust Funds
 - Pension Trust Funds
 - Investment Trust Funds
- o Agency Funds
- o Component Units

Some closing packages distinguish among the following fund categories:

- o Governmental Funds.
- o Enterprise Funds.
- o Internal Service Funds.
- o Trust Funds.
- o Agency Funds.

Appendix A shows the fund category for each of your agency's subfunds.

GAAP Requirements for Various Fund Categories

GAAP reporting requirements vary for different fund categories. Accordingly, some closing packages require different data for various fund categories.

STARS Codes and GAAP Expenditure Categories

GAAP reporting requirements for expenditures on the fund financial statements are different for different fund categories. Specifically:

- o Governmental funds report expenditures by *character* (and by *function* within the Current character).
- o Enterprise, internal service, and trust funds report expenditures by object categories similar to those that businesses use.

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GAAP reports use four expenditure character classifications for governmental funds:

- o Current.
- o Capital Outlay.
- o Debt Service.
- o Intergovernmental.

Appendix C (Section 6.3) shows the relationships for governmental and funds between:

- o STARS expenditure object codes.
- o GAAP expenditure character.

The State uses several functional categories within its Current expenditure character. Appendix B (Section 6.2) shows the relationship for governmental funds between STARS agency codes and GAAP function codes for current expenditures.

For enterprise and internal service funds, examples of GAAP expenditure categories are:

- o Personal Services.
- o Contractual Services.
- o Supplies
- o Fixed Charges.
- o Utilities.
- o Benefits and Claims.

Appendix D (Section 6.4) shows the relationships for enterprise and internal service funds between STARS expenditure object codes and GAAP expense codes.

STARS Codes and GAAP Revenue Categories

Appendix E (Section 6.5) shows the relationships between:

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- o STARS revenue object codes.
- o GAAP revenue codes.

The Comptroller General's Office has grouped the many STARS revenue object codes into a few major revenue source categories for GAAP purposes.

STARS Permanent Improvement Projects and GAAP Funds

The State's definition of a permanent improvement project differs from the GAAP definition of a capital project. For example, the State's GAAP financial statements do not show repair and maintenance projects in the Capital Projects Funds.

The Comptroller General's Office, therefore, has assigned an appropriate GAAP fund code to each STARS permanent improvement project code. Appendix F (Section 6.6) shows the relationships between:

- o STARS permanent improvement project codes.
- o GAAP fund codes.