



# THE SPEED WE NEED

Unlocking the Secrets of  
the Accelerated ACFR





## ABOUT THE AUTHORS

- **Shayne Kavanagh**, Senior Manager of Research, GFOA
- **Todd Buikema**, Assistant Director for Publications, GFOA

## CONTRIBUTORS

- **Christopher Quinn**, CFO, Town of Mooresville, North Carolina
- **Darlene Wildes**, CPA, Deputy City Auditor, City of Columbus, Ohio
- **Jessica Jones**, CPA, CLGFO, Finance Director, City of Concord, North Carolina
- **Jay Kahn**, Director of Finance & Operations/CSBO, Lake Bluff Elementary School District 65, Illinois
- **Korrie Johnson**, Assistant Finance Director, City of Fridley, Minnesota
- **Melanie S. Keeton**, CPA, Deputy Finance Director, City of San Antonio, Texas
- **Jennifer Becker**, Financial Services Director, City of Burbank, California

## ABOUT GFOA

The Government Finance Officers Association (GFOA) represents over 21,000 public finance officers throughout the United States and Canada. GFOA's mission is to advance excellence in government finance. GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.

## ABOUT RETHINKING FINANCIAL REPORTING

Local government is in a time of constrained resources, declining trust, and rapid change. This has prompted GFOA to launch a “rethinking” of several aspects of public finance, including **Rethinking Financial Reporting**. For example, in a time of decreasing trust in government, we should ask if lengthy, technical financial reports that take significant time to compile, undergo lengthy audit processes, and, as a result, are often published many months in arrears are the most effective way to build trust with government's most important constituency: the public. In a time of declining resources, we should ask if the finance officer's time is well spent producing these reports, if, in fact, these reports are not the best way to provide accountability to the public. Time spent on general purpose external financial reports is time not spent on other forms of decision support and public engagement. Simply put, this time is lost opportunity cost that could otherwise be used to build trust. Rethinking Financial Reporting is a fact-based examination into the costs and benefits of the current model of financial reporting and how we can decrease the former and increase the latter.

## USE OF GENERATIVE ARTIFICIAL INTELLIGENCE IN THIS REPORT

Generative Artificial Intelligence (AI) tools, primarily ChatGPT4, were used to help develop the report. Primary uses of the AI tools include:

- Development of ideas for the outline of the report
- Generation of text for a few specific purposes. Text generated directly from generative AI is clearly labeled as such in the report where the contribution from AI is material. Examples of immaterial contributions would be suggestions from AI on wording choices, grammar, etc.
- Review of final report and to give suggestions to make language more accessible for the intended audience.

GFOA acknowledges the limitations of AI-generated information, including potential biases and other limitations of generative artificial intelligence. All data, ideas, etc. from ChatGPT4 that were used in the report were independently verified/validated by the author(s) and not taken at face value.

6  
MONTHS

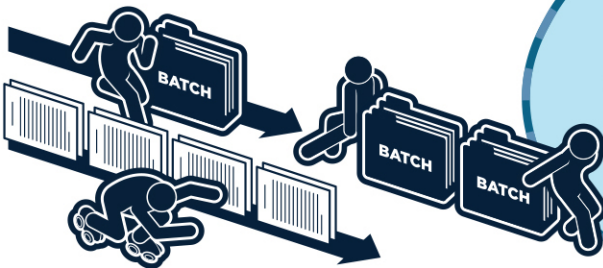
# THE SPEED WE NEED

## UNLOCKING THE SECRETS OF THE ACCELERATED ACFR

Many local governments struggle to complete their annual comprehensive financial report (ACFR) on time and with an acceptable amount of effort. However, by thinking of ACFR production as a process, local governments can take advantage of timeless principles for process efficiency, completing the ACFR faster and with the same or even less effort.

### MODULARIZATION & CONTINUOUS FLOW

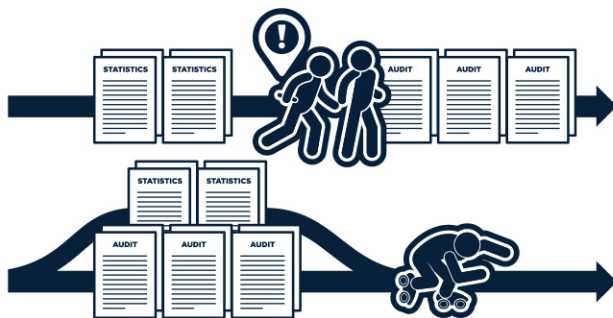
Avoid batch processing and achieve a continuous flow for work through the process. Continuous flow contributes to a steady rhythm of work. Both continuous flow and rhythm contribute to avoiding backlogs and bottle necks.

5  
MONTHS4  
MONTHS

FINISH

### VISUALIZE THE PROCESS

Making the process visual clarifies roles of all parties, including external auditors. It also identifies points where work is handed from one party to the next. Hand-offs are a major point of potential process failure and delay. Visualizing helps you find and eliminate unnecessary sequential processing of work and replaces it with parallel or para-linear processing.



### STANDARDIZE TO MINIMIZE VARIATION

The major theme here is to reduce defects in order to minimize rework. Rework essentially doubles the time it takes to complete a task because the task has to be done twice. Develop standard operating procedures to minimize the variation in the process, which helps reduce errors. You can go a step further by creating dedicated error proofing tools, based on the standard operating procedures.

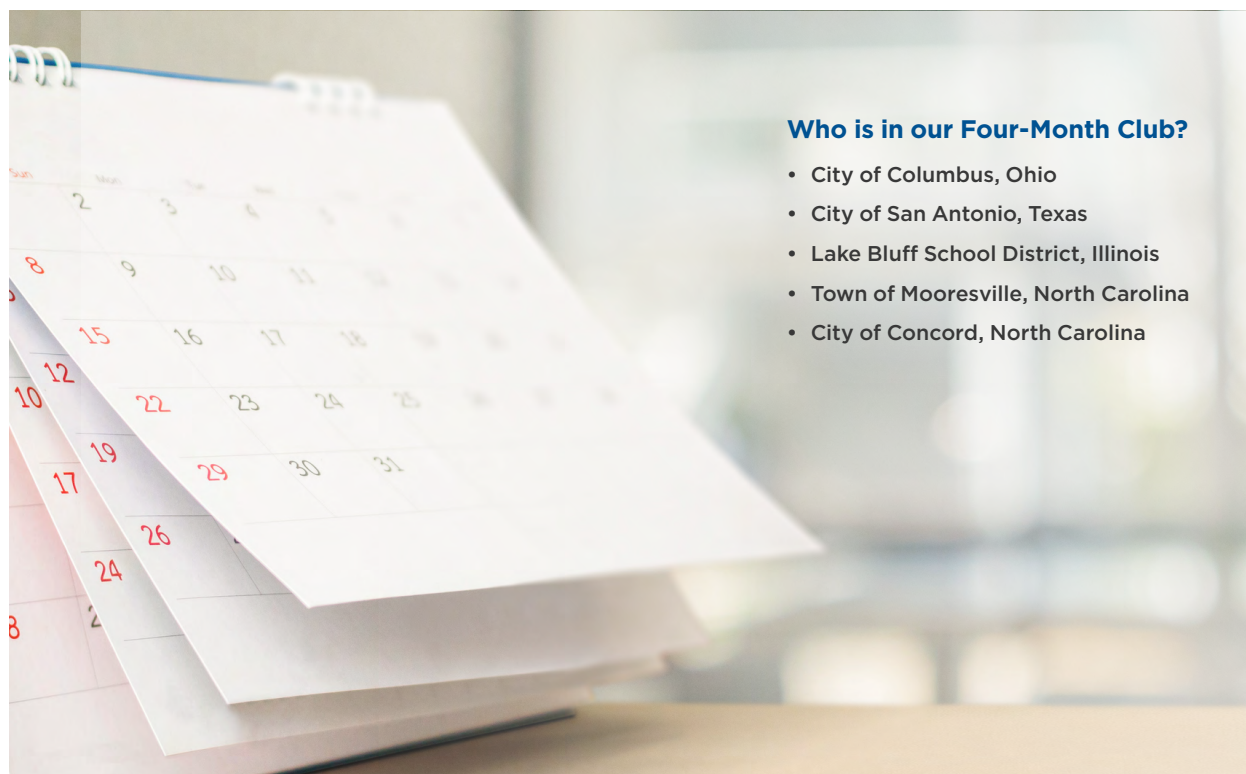


**M**any local governments struggle to complete their annual comprehensive financial report (ACFR) on time and with an acceptable amount of effort. This paper shows how local governments can complete their ACFR *faster* and with *the same or even less effort*. Our goal is to help public finance officers avoid burnout while pursuing the profession's goals of rapid, high-quality financial reporting — and perhaps free up time to focus on the many other tasks vying for their attention outside of financial reporting.

How will we achieve this ambitious goal? By thinking of ACFR production as a process. By doing so, we can take advantage of timeless principles for process efficiency like Six Sigma and [Lean](#). These methods have been widely used in the private and public sectors for many years but, to our knowledge, have rarely been applied to local government financial reporting.

**This paper shows how local governments can complete their ACFR *faster* and with *the same or even less effort*.**

Further, we identified several local governments that complete their ACFR in four months or less after the end of the fiscal year.\* We'll refer to them as the "Four-Month Club." We discovered their secrets, which often parallel the lessons of Lean and Six Sigma, and we will share them with you. We also worked with other governments featured in this report that are not (yet) in the Four-Month Club but are actively working to improve their processes.



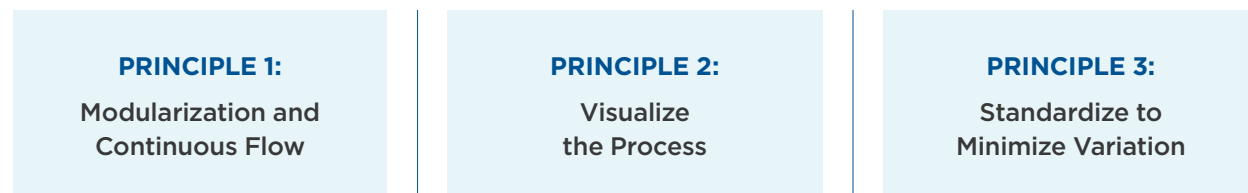
#### **Who is in our Four-Month Club?**

- City of Columbus, Ohio
- City of San Antonio, Texas
- Lake Bluff School District, Illinois
- Town of Mooresville, North Carolina
- City of Concord, North Carolina

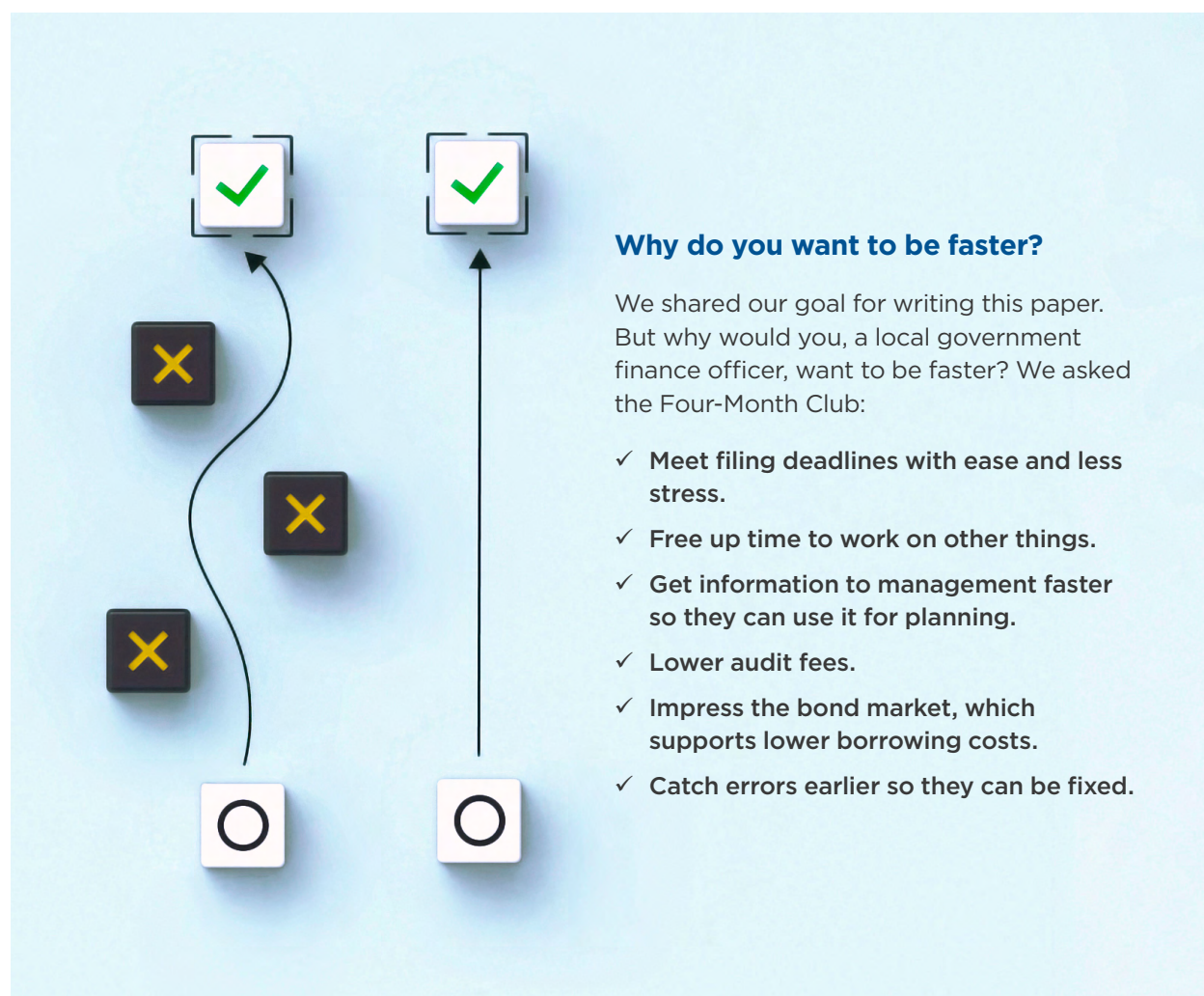
\*Six months after the fiscal year is the standard that most local governments are held to.

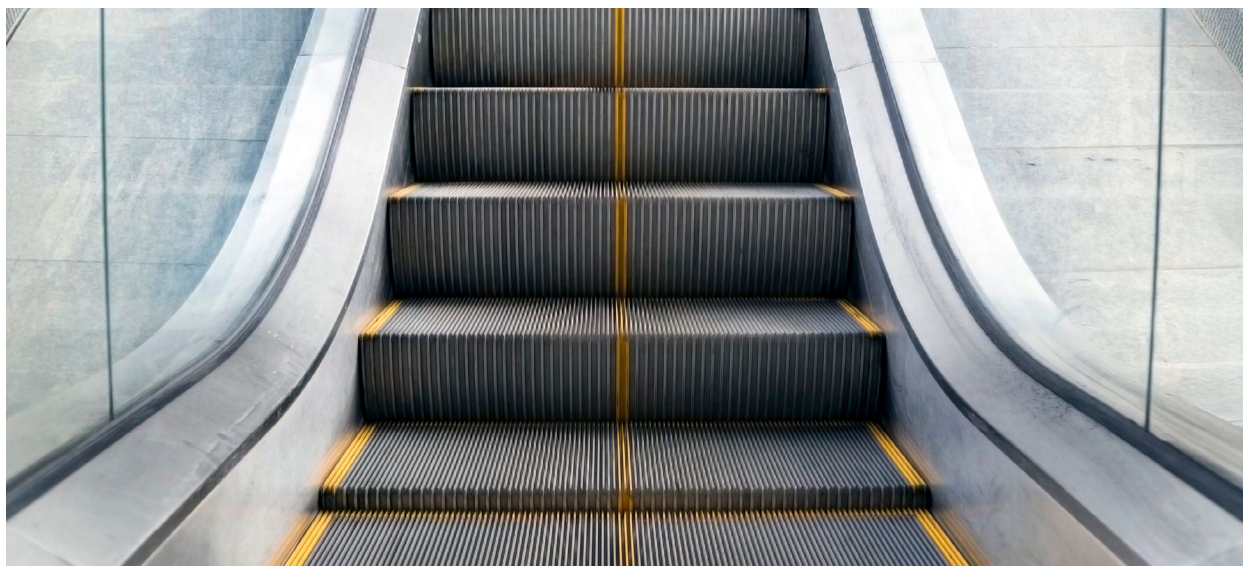


We will present our findings within three basic principles:



Before we dive into the details, let's briefly discuss how this report fits within GFOA's larger Rethinking Financial Reporting project. Lean and Six Sigma are continuous improvement methods in which many small changes to a process can add up to a big difference over time. This report also takes existing financial reporting guidelines and requirements as a given and shows how to produce your ACFR faster within those constraints. Other projects within Rethinking Financial Reporting are examining how to change the constraints and allow discontinuous improvements (immediate leaps) in financial reporting.





## PRINCIPLE 1

### Modularization and Continuous Flow

As the old joke goes: *What is the best way to eat an ACFR? One bite at a time.* That means we should break the preparation of the ACFR into bite-sized pieces (modularization) and then make progress at a continuous pace or rhythm (continuous flow).

#### Modularization

The great value of modularization is that it allows you to identify modules of the ACFR that can be started sooner than others. The Four-Month Club found several such elements, which we grouped into three categories. As one member put it, “Things that don’t require all of the final numbers to be in” are great candidates for starting early.

##### A. Preliminary Audit Work and Internal Control Testing

You can schedule a preliminary audit well before year-end to detect and resolve problems early. Even better, schedule the audit work during a time when the finance department is less burdened with competing priorities, so the findings can be addressed right away.

Performing internal control testing during interim periods, rather than waiting for year-end, helps distribute the workload more evenly throughout the year. This not only eases year-end pressure but also enhances oversight and control.

Documents such as bank statements, investment summaries, receivables, and payables can be collected, reconciled, and made available for auditing during the preliminary audit work. This can reduce audit procedures at year-end.

##### B. Single Audit Compliance Testing

Auditors can conduct single audit compliance testing during interim periods. Prepare a draft Schedule of Expenditures of Federal Awards (SEFA) before the fiscal year ends. Doing so can help

you identify major programs and flag any missing information, allowing you to work with grant and program staff to get that information in advance.

The draft SEFA should include both actual and projected federal expenditures through year-end. Identifying major programs early allows you to obtain the Compliance Supplement, which outlines compliance testing performed by the auditors. This preparation allows early detection of compliance issues that can be addressed before testing begins. When auditors complete compliance testing during the interim period, it reduces year-end workload and enables completion of the ACFR and the SEFA at the same time.

### C. Introductory and Statistical Sections

Many parts of the statistical section — such as population trends and the list of major taxpayers — do not rely on audit results. These sections can be completed early to free up time for working on sections that do depend on audit results.

## Continuous Flow

Besides finding discrete modules that can be completed quickly, our first principle calls for “continuous flow processing.” This can be contrasted with “batch processing” — or waiting until work accumulates and then processing it all at once. This can seem efficient to an individual because it allows them to get into a rhythm. However, it slows the overall process because the next step can’t begin until the entire batch is complete. Moving work along to the next step in smaller pieces allows each step to begin earlier, thereby improving overall efficiency.

We’ve identified four areas where achieving continuous flow processing could be particularly powerful.

### A. Grants and Capital Projects

Conduct regular reviews with operations staff to monitor the status of grants and capital projects. This ensures timely billing, settlements, and project closeouts, preventing a backlog at fiscal year-end.

### B. Preparing Conversion Entries During the Year

Make adjustments throughout the year for critical items — like debt and capital assets — to maintain accuracy and reduce the need for year-end corrections. For infrequent items — such as debt issuance — perform the relevant accounting for both the fund and government-wide financial statements at the time of the event to avoid a year-end backlog.

For example, when a capital bond is issued, the following adjustment is made in the capital projects fund on the date of issuance:

<b>Capital projects fund</b>	<b>DR</b>	<b>CR</b>
Cash	\$5,100	
Expenditures — bond issuance costs	300	
Other financing sources — bond issuance		\$5,000
Other financing sources — original issue premium		400
(Issuance of long-term debt)		

In the government-wide conversion fund, the following adjustment would be made on the date of issuance:

<b>Government-wide conversion fund</b>	DR	CR
Other financing sources — bond issuance	\$5,000	
Other financing sources — original issue premium	400	
Bonds payable		\$5,000
Premium — bonds payable		400
(Reclassification of bond issuance from other financing sources to liabilities for government-wide reporting)		

When a debt service payment is made in the debt service fund, a corresponding adjustment to reduce bonds payable should be made in the government-wide conversion fund.

<b>Debt service fund</b>	DR	CR
Expenditures — debt service — principal	\$200	
Expenditures — debt service — interest	100	
Cash		\$300
(To record debt service payment on bonds)		

<b>Government-wide conversion fund</b>	DR	CR
Bonds payable	\$200	
Expenditures — debt service — principal		\$200
(Reclassification of debt service principal expenditure to reduction of related liability for government-wide reporting)		

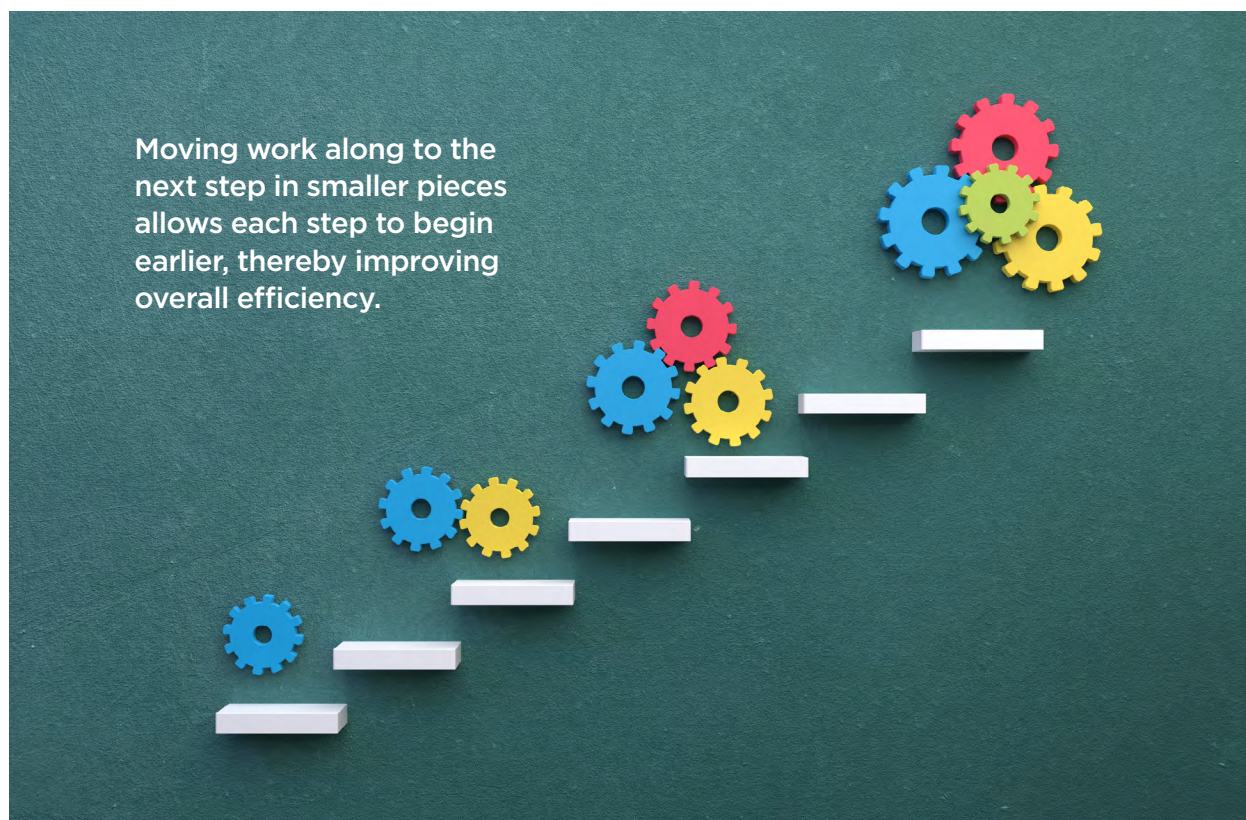
While not shown here, governments could also accrue monthly interest on long-term debt in the government-wide conversion fund and reduce the accrual when the interest payment is made.

When capital assets are purchased in a governmental fund, a corresponding adjustment should be made to capitalize the purchase in the government-wide conversion fund.

<b>Capital projects fund</b>	DR	CR
Expenditures — capital outlay	\$1,000	
Cash		\$1,000
(To record expenditures for purchase of land and construction of new building)		

<b>Government-wide conversion fund</b>	DR	CR
Land	\$700	
Construction in progress	300	
Expenditures — capital outlay		\$1,000
(Reclassification of expenditure to capital assets for government-wide reporting)		





When capital assets are sold or disposed of, the historical cost and accumulated depreciation on the capital asset should be removed from the capital asset ledger, and the corresponding gain or loss on the sale or disposal should be recorded.

### C. Reconciling Accounts

Maintain a clean balance sheet by reconciling cash and investment accounts monthly. In addition, other balance sheet accounts, such as accounts receivable and accounts payable, should be reconciled throughout the year. Periodic reconciliations of subledgers to the general ledger can identify issues that can be corrected in a timely manner. Regularly (e.g., quarterly) review reconciling items to remove stale-dated items, including outstanding checks and pending goods receipts. This helps minimize year-end issues.

Regular reviews of actual results against the budget ensure proper line-item reporting of transactions and the prompt booking of accruals. This helps maintain financial accuracy and readiness for year-end. For governments involved in large construction projects, ensuring that retainage is accrued as invoices are received allows for proper expenditure and capital asset (e.g., construction in progress) reporting.

Ensure that due to/from and transfers in/out accounts between funds remain balanced throughout the year.

Reconcile subsystems — like payroll and revenue systems — monthly to prevent discrepancies and streamline end-of-year processes.

#### D. Interim Statement Review

Ensuring the accuracy of interim statements brings you that much closer to an accurate year-end statement. For example, if a midyear statement is accurate, then only six months remain to be accounted for. Conducting monthly budget-to-actual analyses for all legally adopted funds supports sound financial management and more accurate reporting. This is especially important as you approach year-end.

For example, accurate budget-to-actual analysis depends on reliable data about the money the government may need to pay vendors. That information is also critical to financial statements in other ways. Encouraging timely submission and processing of invoices throughout the year helps avoid a last-minute rush to gather this data at year-end.

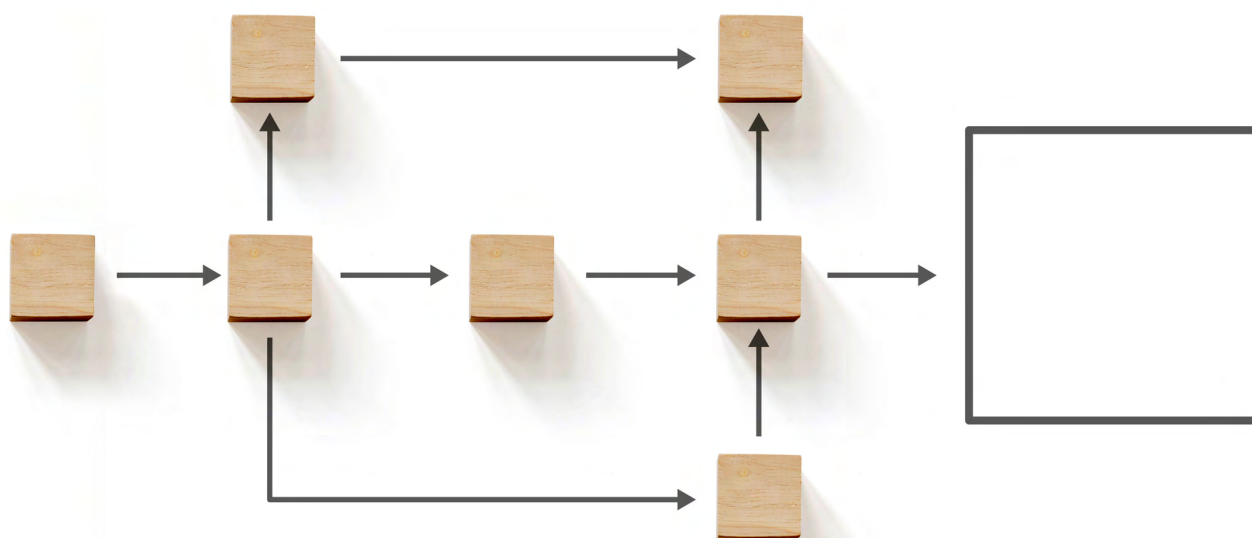
An important complement to continuous flow processing is maintaining a rhythm throughout the year. This means spacing out tasks — so they're not too close together but not too far apart. "Not too far apart" keeps people engaged in the task, while "not too close together" provides a buffer for slippage in the schedule. For example, reconciling accounts monthly helps maintain a clean balance sheet, enabling the finance officer to address variances as they arise and complete the year-end close in a timely manner.

Finally, we should acknowledge the insidious consequences of interruptions. Processing complex work, like an ACFR, is best done in long, uninterrupted blocks of time so that workers can get into a productive flow state. Research shows that once interrupted, it can take up to 25 minutes to regain focus. This problem is not unique to ACFR processing. It applies to any complex analysis or financial task. You can find strategies for reducing interruptions in GFOA's ["Interruptions: How to Tame One of the Worst Office Productivity Killers."](#)

To conclude our discussion of Principle 1, the primary objective is to avoid backlogs and bottlenecks. Batch processing is notorious for causing inefficiencies. Think of a pipeline — a steady flow of material through the pipe is far more manageable than forcing everything through at once.

**The primary objective is to avoid backlogs and bottlenecks. Think of a pipeline—a steady flow of material through the pipe is far more manageable than forcing everything through at once.**





## PRINCIPLE 2

### Visualize the Process

If the process is invisible, it is hard to manage — so make it visible. There are many ways to do this. A process map, like a flowchart, is a classic way and can be especially helpful in large governments with many participants. In smaller governments, more economical tools may be better. For example, a simple checklist is great for documenting and providing reminders for critical steps that might otherwise be missed. You can see an example of [San Antonio's checklist here](#).

No matter the format, there are several key objectives for visualizing the process.

First, clarify roles in the process and the timelines for tasks. This includes external auditors.

Clarifying roles and timeliness is a prerequisite for the second objective, which is to identify handoffs in a process. Handoffs occur when work is transferred from one person to another. In a relay race, the baton is most likely to be dropped during the handoff between runners. It is no different in a work process. Process improvement methods — like Lean and Six Sigma — focus on handoffs, as they are especially prone to errors and delays.

Process visualization helps identify tasks where handoff errors are a big risk. Handoffs can occur within the finance department when multiple staff members work on the ACFR. Risks also occur with handoffs between the local government and its external auditor. Information required from other departments — such as estimates for accounts payable or accounts receivable — presents a handoff risk as well. A final example is actuarial valuations for pensions and other post-employment benefits.

There are many ways to reduce these risks.

- For external auditors, build timeline goals into the auditor's contract. Members of the Four-Month Club stress the importance of setting timeline expectations with their external auditors. The City of Columbus includes in its Request for Proposals that the audit be completed within 90 days. That requirement is included in the final contract.
- Provide the information that actuaries need early in the process to reduce the risk of their work delaying final production of the ACFR.
- For governments with larger finance teams, identify tasks that can be assigned entirely to a single person. For example, the City of Columbus assigns the production of statistical tables to a single individual, eliminating handoffs in this part of the process.

**When a task doesn't depend on the completion of the previous one, there is an opportunity for parallel processing.**

The third objective of visualizing the process is to find opportunities for parallel or parolinear processing. Parallel processing is doing two tasks at the same time. Parolinear processing is starting one task first but starting the second before the first one is complete.

A common process efficiency opportunity uncovered by Lean and Six Sigma analyses is unnecessary sequential processing — waiting for one task to be finished before starting the next. When a task doesn't depend on the completion of the previous one, there is an opportunity for parallel processing.

For example, one member of the Four-Month Club develops the statistical section parolinearly with the audit. They start on the stats section after the audit begins but well before it is completed. They have even visualized these opportunities in their work plan, using a special color code to highlight tasks that can begin before other tasks are finished.

In another example, one finance department was waiting to request data from component units until the finance department was ready to process it. The department then had to wait a long time for the component units to provide the data. Now, the finance department requests the data in advance, allowing the department to work on other tasks while the component units work on the data request.

The fourth objective is exception processing — deciding how to identify and manage nonstandard items that arise during ACFR production. Items that don't fit the standard approach can disrupt the entire process if there is no plan to deal with them.

Component units often fall into this category. These legally separate organizations — whether they are other governments or nonprofits — may issue their own financial statements. They may also be audited by different auditors and follow a different fiscal year from the primary government. Coordinating with component units on due dates is critical to issuing financial statements in a timely manner.

A final objective is load balancing. Visualizing the process (including the time required for different tasks) can help you find unbalanced workloads and make the best use of available talent. For example, one member of the Four-Month Club maintains a list of specific tasks to be done for



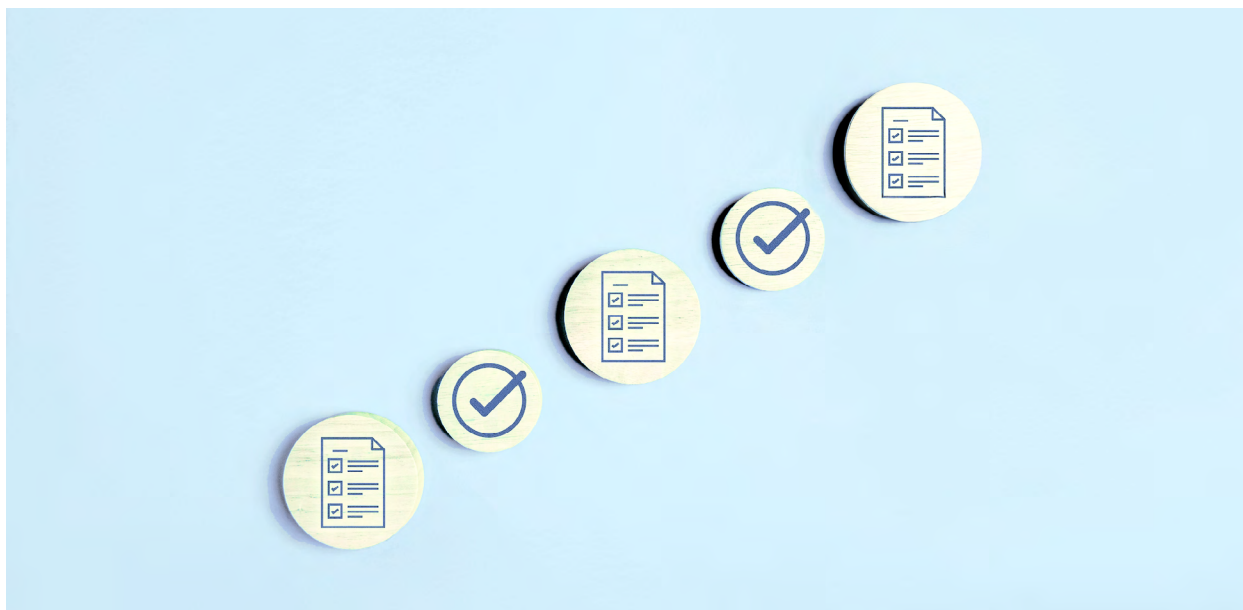
the ACFR. Each task is given to a member of the finance team. The finance department carefully manages team members' workloads to ensure ACFR tasks are completed before the deadline.

A critical part of load balancing for a finance department is “meeting time” versus “maker time”. Inefficient and overly frequent meetings have a reputation as productivity killers. However, a less appreciated consequence for the ACFR is that workers will be most efficient when they have long, uninterrupted blocks of time to do the work. Consider how you can structure daily work schedules to both allow for sufficient collaboration time (meetings) and sufficient individual uninterrupted time on task to maximize productivity. You can learn more about strategies for achieving this in GFOA's [Meetings: Going from Waste of Time to Worth the Time](#).

Load balancing is not just relevant for larger finance departments. Even in smaller departments, visualizing the process helps plan the full scope of the finance department's work and balance ACFR tasks alongside other responsibilities. Many people in small finance departments have both managerial and maker responsibilities — they oversee ACFR processing while also doing the work.

A manager's schedule is often characterized by frequent but short meetings throughout the day. A maker's schedule, however, requires long, uninterrupted blocks of time to optimize productivity. If you are both a manager and a maker, consider structuring your schedule to fulfill managerial responsibilities while also creating large blocks of time to process the ACFR. The GFOA report on meetings referenced earlier can help.





## PRINCIPLE 3

### Standardize to Minimize Variation

Standardization reduces the variation a task is subject to. When a process is more variable, the output it produces is also more variable. Greater variability increases the likelihood of unacceptable deviations from the desired quality. These deviations are known as **defects**.

Defects require **rework**. Rework is a costly form of waste in a process. Redoing a task consumes both time and money.

Abraham Lincoln is reported to have said, “If I had five minutes to chop down a tree, I’d spend four minutes sharpening the axe.” The equivalent for finance departments is to develop standard operating procedure (SOP) documents for ACFR production.

In the City of San Antonio, Texas, SOPs include linked Excel workbooks for loading all reported funds from the combining statements through to the government-wide statements. Staff provide preformatted financial information for the funds, already rounded to the nearest dollar to eliminate footing issues. You can [download several examples](#) of San Antonio’s SOPs, including:

- A calendar for ACFR production.
- The standard operating procedures for printing the ACFR, which provides a great example of documenting steps and including references to relevant software interactions that staff will need to use.
- Listing of the various year-end adjusting journal entries needed.
- A spreadsheet template that is used to determine “major funds.”

Additionally, there are SOPs for specific year-end accruals and allowances, such as the GASB 33 sales tax catch-up, municipal court revenues, and departmental templates and SOPs for pollution remediation, leases, and SBITA calculations.

One of the great but underappreciated advantages of SOPs is their usefulness for creating error-proofing techniques. These techniques help identify deviations from the SOP and prevent errors from being passed along to the next step in the process. This could happen by either disallowing the error (e.g., software that blocks invalid data entry) or by alerting the worker to deviations so issues can be corrected before moving forward.

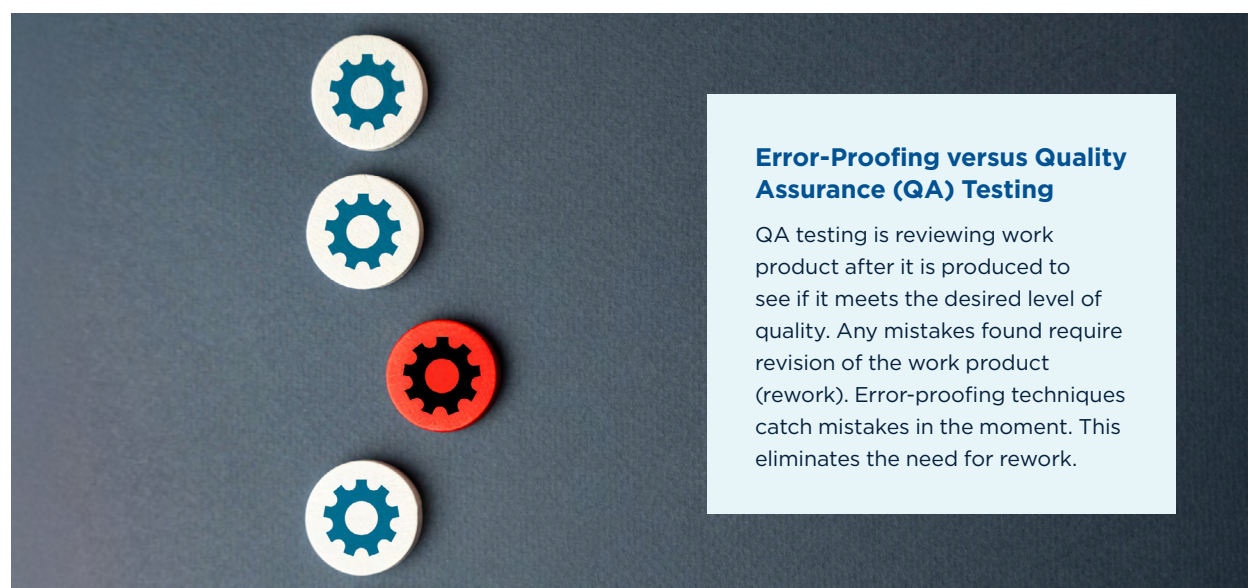
Members of the Four-Month Club use several types of error-proofing techniques, which we will discuss below. You can also dive into the problem of rework and how to fix it with error-proofing in GFOA's [“Rework: Doing Double for Nothing and How to Fix it.”](#)

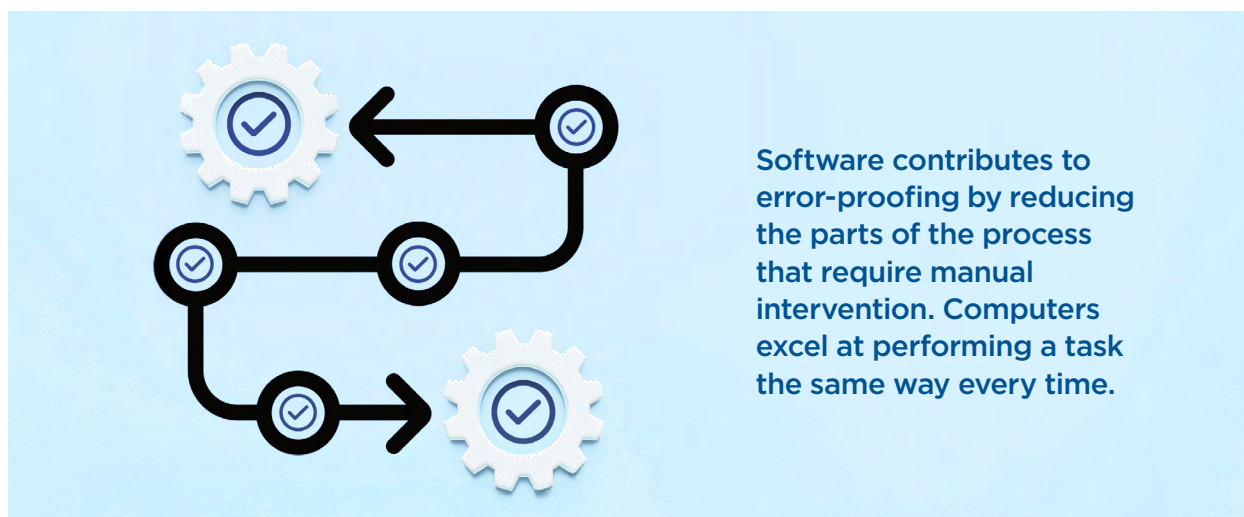
A good place to start is to provide staff with a roadmap for the ACFR process. There are several ways to do this, but we will focus on the simple checklist.

In his book, *The Checklist Manifesto*, Atul Gawande shows how checklists have made a profound difference in fields like medicine and air travel. For example, a study that introduced surgery safety checklists at eight hospitals showed a 36% reduction in major complications and a 47% reduction in deaths after the introduction.<sup>1</sup>

Checklists help identify critical items in a process that are at risk of being overlooked, forgotten, or delayed. For an ACFR, you could develop an audit checklist with critical steps for categories such as accounts payable, accounts receivable, payroll, cash, and more. This checklist could also include due dates, assignments, and other useful notes. You can see an example from the [City of Fridley and the City of Concord](#).

A checklist can be supported by templates for performing the tasks it outlines. The [City of Fridley](#) has templates for bank reconciliations, capital assets, net position calculation, major program calculation, and converting fund statements to government-wide statements.





These examples are all relatively low tech, involving little more than standard office productivity software. However, more sophisticated software can also help. Software contributes to error-proofing by reducing the parts of the process that require manual intervention. Computers excel at performing a task the same way every time. Variation in how a task is performed is a source of potential error.

The Town of Mooresville benefits from software that manages the compilation of the final ACFR document. Once the software is set up, compiling the document becomes easier and faster, with little to no variation between the Town's requirements and what the software produces.

Before implementing its software, the Town of Mooresville spent at least a week double-checking page numbers, making sure totals and notes matched across various statements, and ensuring the Management Discussion and Analysis (MD&A), statistical schedules, and budget-to-actual statements aligned with the core financial statements. The Town went through at least a dozen drafts before reaching a version it was comfortable releasing.

A great error-proofing technique is to cross-check numbers that appear in several places within the ACFR. For instance, figures in the MD&A should match those in the government-wide financial statements. A formula or algorithm can automatically check that they are equal.

The City of Columbus uses software that cross-checks numbers across the MD&A, financial statements, notes, and statistical section. For example, if a number in the financial statements is updated, the software ensures that the same number is updated elsewhere in the document. A dashboard alerts ACFR preparers to potential inconsistencies.

Your efforts to error-proof the process should evolve with experience. Have a debrief of the ACFR process each year. Review what went well and what could be better at the end of the audit — internally with staff and externally with auditors. Incorporate lessons learned into your SOPs for next year's audit.

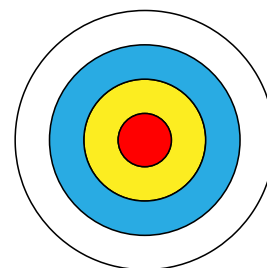
Lean process improvement identifies several sources of potential waste in business processes — many of which we've already covered. One area we have not yet addressed is overproduction or overprocessing. This is doing more work than necessary to meet the needs of the ACFR user.



The best example is spending time on a higher level of precision than required. A measure (such as a dollar amount) can be accurate without being precise.

We can illustrate this concept with a carnival game. Imagine you can win a prize by hitting a target with a BB gun. Take a look at our target illustration to the right. Let's suppose the rules are that you need 50 points to win the prize and you get four shots. Hitting the red dot is worth 15 points, the yellow ring is worth 10 points, the blue ring is worth five points, and the white ring is worth zero. Obviously, you should aim for the red dot to maximize your score.

**The Target in Our Game**



Now, imagine the rules have changed. You still get four shots and need 50 points to win. However, the red dot and yellow ring are both worth 10 points, while the blue and white rings are both worth zero — but you also earn 10 more points if you make all four hits in less than six seconds. Thus, if you have four tries, it is not enough to simply hit the target area — you must also hit fast enough to earn sufficient points to reach the goal.

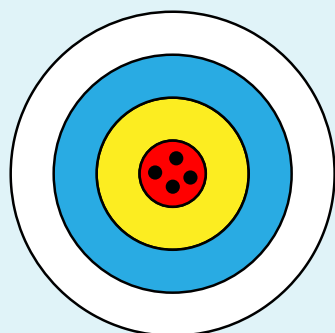
There is a strong case to be made that preparing an ACFR is more like the second of our carnival game scenarios than the first. The sooner the ACFR is completed, the better. There is not unlimited time to hit the mark. Also, there is a set accuracy threshold to meet. Can users of financial statements use them to make decisions with confidence? Going beyond this threshold adds little or no value for the user.

This brings us to the difference between precision and accuracy. Let's illustrate this in the diagram below using the results from our second carnival game. The result on the left is highly accurate and precise because the shots are right on the mark. The result on the right is still highly accurate because all four shots are in the goal area, earning the same total points. However, they are less precise because they are not all right on the mark. Nevertheless, the results on the right are more likely to win the game because they can be achieved more quickly, with less time spent aiming.

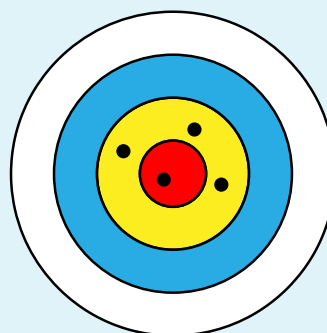
Now, let's look at some real-life applications of this concept to ACFRs. Think of these as ways to land within at least the yellow ring while staying under the time limit.

**Imagine you are playing a carnival game where a prize can be won by hitting the target with a BB gun...**

**High Accuracy, High Precision**



**High Accuracy, Low Precision**



*If the yellow and red areas of the target are worth the same, then the results on both targets are equally accurate. The results on the left, however, are more precise. If you can get more points toward winning the prize by going faster, then you should sacrifice precision for speed.*

## Get Comfortable With Estimates

Use historical trends as a foundation for revenue and expense accruals. This allows for a faster, less time-intensive estimation process in which trend-informed estimates form your accrual number. You can also review the current year's operations as part of the accrual estimation. This keeps estimates reflective of actual conditions. You can make adjustments to accruals at year-end if discrepancies from the norm are significant. This allows for flexibility and responsiveness in financial reporting without the need for excessive precision during the fiscal year.

In the City of San Antonio, year-end estimates are established for hotel occupancy taxes, municipal court revenues, and EMS transportation revenues based on historical trends, including actual revenues from earlier in the year. Departments estimate year-end expense accruals for goods and services that were received but not yet billed. Those estimates are only changed if the actual invoices result in a variance significant enough to misrepresent the fund's activities.

## Materiality Thresholds

Christopher Quinn from the Town of Mooresville observed: "Accountants often believe that numbers should be exact. Significant delays in producing the ACFR often happen due to an unwillingness to make estimates and understand that these do not need to be exact. Understanding the effects of materiality is critical."

To illustrate this, GFOA selected local governments at random from the long-term participants in the GFOA Certificate of Achievement for Excellence in Financial Reporting Program and looked at their 2023 and 2013 ACFRs to find their capitalization thresholds. The findings showed over 70% of the thresholds disclosed had not been updated in at least 10 years.\*

This means that these local governments have, in effect, reduced their thresholds over time because inflation decreases the real monetary value of the threshold. When adjusted for inflation, the thresholds have lost between 30% and 60% of their value, depending on the inflation assumptions used.<sup>2</sup> In any case, the declines are not trivial. Long-term declines in real-dollar thresholds used for capitalization speak to a cautious philosophy of judging materiality.

The City of Burbank illustrates the benefits of a more selective approach to materiality. The City raised its asset capitalization threshold from \$5,000 to \$10,000 — its first increase since 2004. Raising the threshold led to the removal of 343 capital assets from the City's books. These assets had a total value of \$2 million, compared to the City's \$1.25 billion in total capital assets — a relative drop in the bucket at 0.16% of the total. In terms of workload, however, that is 343 fewer capital assets that needed to be tracked, physically audited, retired or replaced, and reported on. Since the City has one accountant dedicated to capital assets, that's a big savings for the City, not to mention for the departments responsible for tagging and maintaining the equipment.

## Round Your Numbers

Though not as important as the issues just mentioned, rounding statements to millions or thousands can help avoid unnecessary precision.

\*Given the number of local governments we selected, there is about a 99.99% chance that true population measure is greater than 50%, providing strong support for the position that most local governments tend toward cautious judgments.



## Where Should You Start?

We have described several strategies to help accelerate your ACFR, but where are the highest leverage opportunities for **your** process? One way to find them is to conduct an “Eight Wastes Scavenger Hunt.”

One key idea in Lean process improvement is that all processes include some form of waste. Thus, improving a process starts with identifying waste and eliminating it. Lean identifies eight forms of waste, often remembered by the acronym D.O.W.N.T.I.M.E. Below, we’ve defined each of these forms of waste.

Although these categories were originally developed for physical manufacturing, they apply well to knowledge work too. We’ve provided an example of each type of waste within the ACFR process. Look for these forms of waste in your process. Each one represents an opportunity for improvement.

### 1. **Defects:** Errors or mistakes that require rework.

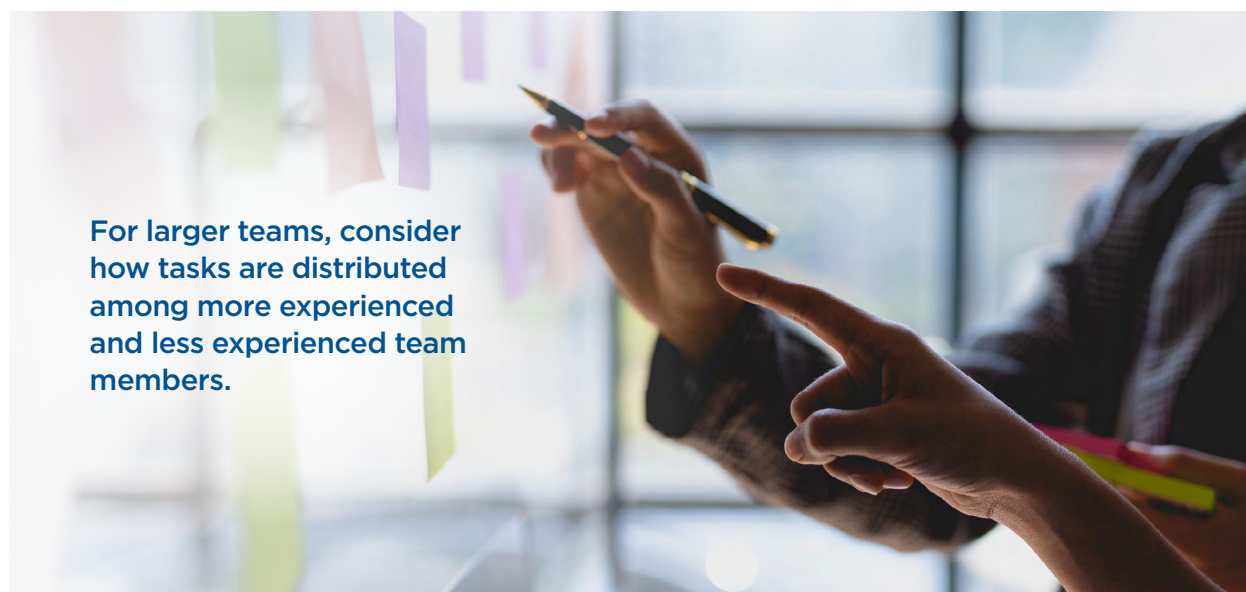
We saw how defects in the final ACFR document production forced Mooresville to go through several versions before reaching one that could be released.

Where in your process are defects leading to rework?

### 2. **Overproduction:** Producing more than what is needed or producing it before it is needed.

A prime example is materiality thresholds that are set too low, leading to unnecessary reporting of items. We saw how the City of Burbank saved time by raising its capitalization threshold.

Where in your process are you producing more information than the end user needs — or producing it too soon?



**For larger teams, consider how tasks are distributed among more experienced and less experienced team members.**

### **3. Waiting:** Idle time when resources are not in use, such as waiting for information or approvals.

This is often a consequence of batch processing or botched handoffs.

A common example is waiting on audit results. We saw how members of the Four-Month Club worked to understand the handoffs with auditors and then designed the audit schedule and contract to minimize the waste of waiting.

Waiting can also arise from unnecessary sequential processing. One government found that it was requesting component unit financial data only after prior steps in the ACFR process were done and the finance department was ready to process data. They have since initiated the request for data before the finance department is ready for it, so the data will be available closer to the time the department needs it. This is an example of making a sequential process into a parallel process: A) The request is made. B) The component unit works on it. C) In the meantime, the finance department is doing other things.

Where are the longest wait times in your process?

### **4. Non-Utilized Talent:** Underutilizing employees' skills, talents, or knowledge.

In an ACFR process, workloads or tasks distributed inefficiently are common culprits.

We saw how the Four-Month Club focused on load balancing in both small and large finance departments. For larger teams, consider how tasks are distributed among more experienced and less experienced team members. A common process improvement technique is to: A) Assign standard, easier-to-process transactions to less experienced workers. B) Route unusual transactions to more experienced workers.

Also, don't overlook small yet mighty productivity killers, like [inefficient meetings](#) and [frequent interruptions](#).

Where do you have opportunities to better balance workloads or make better use of available skills and abilities?



### 5. **Transportation:** Unnecessary movement of materials between processes.

Another way to think about this is too many handoffs. We saw how San Antonio assigned the entire statistical section to one person to avoid handoffs.

Where in your process are there many back-and-forths among participants, and how could they be reduced?

In ACFR processing, the biggest risk of motion waste stems from steps that are performed only once per year, making it easy for participants to forget them.

### 6. **Inventory:** Work product that is not being processed.

In an ACFR process, this waste occurs whenever there is a backlog of information.

For example, waiting until the end of the fiscal year to determine capital asset changes can lead to considerable time spent sorting out what should be capitalized, which can lead to errors.

The City of Concord, North Carolina, avoids capitalization backlogs by capitalizing eligible purchases throughout the year, including construction in progress. This saves time at year-end when other tasks need to be done.

### 7. **Motion:** Unnecessary movements by people.

In knowledge work, this type of waste primarily occurs when employees spend too much time searching for information or switching between screens and software applications.

In ACFR processing, the biggest risk of motion waste stems from steps that are performed only once per year, making it easy for participants to forget them. As a result, they must search for reminders on how to perform the tasks.

We saw how the Four-Month Club widely used SOPs and checklists to avoid this waste. Similarly, San Antonio included hyperlinks in its SOPs to help workers quickly access the correct spreadsheets.

Where in your process are people searching for instructions or moving between different systems or applications?

### 8. **Extra Processing:** Performing more work or adding more features than what is required by the end user.

The biggest instance of this waste in the ACFR is over-precision. We saw how members of the Four-Month Club are comfortable using reasonable estimates in many aspects of the ACFR. This concept can be broadened to include any information in the ACFR that is not used by the end user.

Where are you providing more information or more precise numbers than are needed?

Together, these eight forms of waste offer a roadmap for improvement. Work with your finance team to spot them in your own process. Doing so will highlight your best opportunities to apply the three principles outlined earlier and accelerate your ACFR.

## Conclusion

We have identified three principles to help you accelerate your ACFR. Let's recap these principles and their major themes. Knowing these principles and themes will help you develop your own techniques for accelerating your ACFR process and go beyond the examples provided by the Four-Month Club.

The first principle is **“Modularization and Continuous Flow.”** A key theme is to avoid batch processing and achieve a continuous flow of work. Continuous flow contributes to a steady rhythm, which helps prevent backlogs and bottlenecks.

The second principle is **“Visualize the Process.”** Making the process visual clarifies roles of all parties, including external auditors. It also identifies points where work is handed off from one party to another. Handoffs are a major point of potential process failure and delay.

Visualizing helps eliminate unnecessary sequential processing, replacing it with parallel or parilinear processing. Visualizing enables better workload balancing among finance team members and between ACFR production and other finance department work.

Finally, visualizing can help you design a way to handle issues that don't fit standard processing, with component units being one common example. Routing out these exceptions to a different subprocess can keep the main workflow humming along.

The third and final principle is **“Standardize to Minimize Variation.”** The key objective is to reduce defects to minimize rework. Rework doubles the time it takes to complete a task because the task must be repeated.

Developing SOPs helps minimize variation in the process, which helps reduce errors. Going a step further, you can create dedicated error-proofing tools based on these SOPs to enhance efficiency and accuracy.

## ENDNOTES

<sup>1</sup> Chew T. S. (2011). The checklist manifesto: How to get things right. *Clinical Medicine*, 11(3), 296–297. <https://pmc.ncbi.nlm.nih.gov/articles/PMC4953332/#:~:text=In%20January%202009%2C%20the%20results,to%207%25%20using%20this%20checklist>.

<sup>1</sup> Local governments purchase a basket of goods that is quite different from that contained in CPI. We used two different inflation indices that are intended to better capture the cost pressures faced by local governments. Northern Illinois University, Center for Governmental Studies. (2025). Illinois Municipal Price Index (MPI). Retrieved February 1, 2025, from <https://www.cgs.niu.edu/resources/municipal-pricing.shtml>. U.S. Bureau of Economic Analysis. (2025). State and Local Consumption Expenditures & Gross Investment (SLCE). Federal Reserve Bank of St. Louis. Retrieved February 1, 2025, from <https://fred.stlouisfed.org/series/SLCE>.



Government Finance Officers Association  
203 N. LaSalle Street, Suite 2700  
Chicago, IL 60601  
312-977-9700 | [gfoa.org](http://gfoa.org)