Arctic Slope Community Foundation

Success for Nonprofit Audit Preparation Program (SNAPP)

Municipal Year-End Close
and Audit Readiness Toolkit

A Step-by-Step Working Reference for Municipal Finance Staff

TOOLKIT SERIES • VOLUME 01

Municipal Financial Operations and Audit Readiness

How to Use This Toolkit

This toolkit is designed for municipal finance staff — including city clerks, bookkeepers, finance officers, and administrators — who may not have a formal accounting background. It provides plain-language, step-by-step guidance for completing year-end financial close and preparing for an annual audit using QuickBooks.

Each section includes:

- What it is: A plain-language explanation of the task
- Why it matters: How it connects to your audit and financial records
- How to do it in QuickBooks: Step-by-step instructions
- Checklist: A printable list to mark off as you complete each step
- Common issues: Problems we often see, and how to address them

! **Before You Begin**
Gather the following before starting: prior year audit report, all 12 months of bank statements, payroll records, grant agreements, council meeting minutes, and a current QuickBooks backup.

Regulatory Framework
GASB Statement No. 34 (GAAP) — Establishes the basis for municipal financial reporting.
2 CFR Part 200 (Uniform Guidance) — Federal grant compliance requirements. Single Audit applies when federal expenditures reach $750,000 or more.
Alaska Statutes Title 29 — Governs municipal finance and reporting for Alaska municipalities.
Alaska Municipal League (AML) Best Practices — Referenced for Alaska-specific guidance throughout.

Your Four-Phase Year-End Roadmap

Year-end close is a multi-week process. Work through these phases in order. Do not advance to the next phase until the current one is substantially complete.

Phase	Name	Goal	Typical Timing
1	STABILIZE	Resolve backlogs, missing records, and urgent risks.	8-10 weeks before year-end
2	ORGANIZE	Standardize files and establish recurring workflows.	4-7 weeks before year-end
3	PREPARE	Run reports, reconcile accounts, and build the audit file.	1-3 weeks before audit fieldwork
4	SUSTAIN	Maintain strong habits after the audit.	Ongoing post-audit

Important
Do not begin Phase 3 (Prepare) while bank reconciliations from earlier months are still incomplete. Auditors request reconciliations first. Missing reconciliations signal a material weakness in internal controls.

Section 1: Bank Reconciliations

What Is a Bank Reconciliation?

A bank reconciliation compares the cash balance in your QuickBooks records to the balance on your official bank statement, then explains any differences. It is the most fundamental internal control in municipal finance.

Why It Matters for Your Audit

Auditors request completed bank reconciliations for every month of the fiscal year, for every bank account. Missing reconciliations are one of the most common audit findings for small municipalities and can result in a material weakness finding — a serious deficiency in internal controls.

Regulatory Reference
AU-C Section 315 (AICPA) — Requires auditors to evaluate internal controls, including cash reconciliation.
GASB Best Practice — Reconcile all bank accounts within 10 business days of receiving the monthly bank statement.
Alaska AS 29.35.160 — Municipalities must maintain complete and accurate financial records at all times.

How to Reconcile in QuickBooks — Step by Step

Step	What to Do
1 — Gather the Bank Statement	Obtain the official bank statement for the month. Locate the statement ending date and ending balance.
2 — Open Reconcile in QuickBooks	Go to: Banking > Reconcile. Select the correct bank account from the dropdown.
3 — Enter Statement Details	Type in the Statement Date and the Ending Balance exactly as printed on the bank statement. Click Continue.
4 — Match Transactions	Check off each deposit and payment that appears on both your bank statement AND in QuickBooks. Work line by line.
5 — Investigate Any Difference	If the Difference field does not show $0.00, do not force the reconciliation. Investigate each unmatched item before proceeding.
6 — Complete and Print	When Difference = $0.00, click Reconcile Now. Immediately print both the Reconciliation Summary and Reconciliation Detail reports.
7 — File the Documentation	Save printed copies with the bank statement. Save PDF copies to: Audit Folder > 01 Bank Reconciliations > [Month Year].

✓	Monthly Bank Reconciliation Checklist
☐	Bank statement received for this month

✓	Monthly Bank Reconciliation Checklist
☐	QuickBooks > Banking > Reconcile opened and correct account selected
☐	Statement date and ending balance entered accurately
☐	All cleared deposits matched to bank statement line items
☐	All cleared payments/checks matched to bank statement line items
☐	Outstanding checks reviewed and list is current (old outstanding items investigated)
☐	Outstanding deposits (deposits in transit) reviewed
☐	Difference = $0.00 confirmed before clicking Reconcile Now
☐	Reconciliation Summary report printed or saved as PDF
☐	Reconciliation Detail report printed or saved as PDF
☐	Paper copy attached to original bank statement
☐	PDF copy saved to Audit Folder > 01 Bank Reconciliations > [Month Year]

Common Bank Reconciliation Issues

Issue	What It Means	How to Fix It	Priority
Difference is not $0.00	Transactions in QB do not match the bank statement	Review each unmatched item. Look for duplicate entries, wrong amounts, or missing transactions. Never force a zero balance.	HIGH
Months have never been reconciled	No reconciliation history on file	Start with the oldest unreconciled month and work forward chronologically. Do not skip months.	HIGH
Old outstanding checks (90+ days)	Checks that have not cleared the bank after 90+ days	Contact vendor. Consider voiding and reissuing if check is lost. Follow Alaska unclaimed property rules after one year.	MEDIUM
Bank fees missing from QuickBooks	Service charges on statement not recorded in QB	Add during reconciliation using the Enter Transactions button in the reconcile window.	LOW

Section 2: Accounts Payable (AP) Review

What Is Accounts Payable?

Accounts Payable (AP) is money your municipality owes to vendors for goods or services already received but not yet paid. At year-end, your AP balance must include all amounts owed as of the last day of your fiscal year — even if you have not yet written the check.

Why It Matters for Your Audit

Under GASB accrual accounting standards, expenses must be recorded in the period the goods or services were received — not when cash is paid out. Recording a fiscal year-end invoice in the new year is a financial statement error. Auditors will test payables for proper cutoff.

Step	What to Do
1 — Run AP Aging Report	Reports > Vendors & Payables > A/P Aging Summary. Set the date to your fiscal year-end. Review all outstanding balances.
2 — Investigate Old Balances	Any invoice over 90 days old needs explanation. Confirm whether it is a valid open payable or a data entry error.
3 — Confirm Year-End Invoices Entered	Collect all invoices dated in the final month of your fiscal year. Verify each one is entered in QuickBooks with the correct date and account code.
4 — Enter Any Missing Bills	If goods or services were received before year-end but the invoice is not yet in QuickBooks: go to Vendors > Enter Bills and enter it now.
5 — Reconcile AP to General Ledger	The total on your AP Aging Summary must equal the AP account balance on your Balance Sheet. If they differ, investigate the discrepancy.
6 — Print and File	Save the final AP Aging Summary (dated fiscal year-end) to Audit Folder > 04 Accounts Payable.

✓	Accounts Payable Year-End Checklist
☐	AP Aging Summary run as of fiscal year-end date
☐	All invoices over 90 days reviewed and documented
☐	All final-month invoices confirmed entered in QuickBooks with correct date
☐	Any unrecorded year-end invoices entered using Vendors > Enter Bills
☐	AP Aging Summary total reconciled to AP account on Balance Sheet
☐	Vendor 1099 list reviewed for accuracy (vendors paid $600+ in year)
☐	Final AP Aging Summary saved to Audit Folder > 04 Accounts Payable

Section 3: Payroll Verification

What Is Payroll Verification?

Payroll verification confirms that wages and benefits paid to employees are accurately recorded in QuickBooks, match your payroll processor reports and tax filings, and are supported by governing body authorization.

Why It Matters for Your Audit

Payroll is typically the largest expenditure in a municipal budget. Auditors examine payroll closely to confirm wages are authorized, taxes are withheld and remitted on time, and retirement contributions (PERS/TERS) are correctly calculated and recorded.

Payroll Regulatory Reference
IRS Publication 15 (Circular E) — Federal employer requirements for payroll tax withholding and deposit.
IRS Form 941 — Quarterly payroll tax return. Must reconcile to QuickBooks totals each quarter.
Alaska PERS/TERS (AS 39.35) — Public Employees and Teachers Retirement System contribution requirements.
FLSA (Fair Labor Standards Act) — Federal overtime and recordkeeping requirements.
Best Practice: Reconcile payroll quarterly, not just at year-end. Errors compound quickly over multiple periods.

Step	What to Do
1 — Run Payroll Summary	Reports > Employees & Payroll > Payroll Summary. Date range: full fiscal year. Review gross wages, withholdings, and employer-paid benefits.
2 — Reconcile to IRS Form 941	Add up wages from all four quarterly 941 forms. Total must match the QuickBooks Payroll Summary annual gross wages. Investigate any difference.
3 — Verify PERS/TERS Contributions	Compare QuickBooks PERS/TERS totals to the remittance statements from the Alaska Division of Retirement and Benefits.
4 — Confirm Authorized Pay Rates	For each employee, confirm their pay rate is supported by a council-approved salary schedule, employment contract, or council resolution.
5 — Record Year-End Accrual (if needed)	If a pay period crosses your fiscal year-end, record an accrued wages journal entry for wages earned but not yet paid. Ask your SNAPP advisor for help with this entry.
6 — Print and File	Save Payroll Summary and Employee Earnings Summary to Audit Folder > 02 Payroll.

✓	Payroll Verification Checklist
☐	Payroll Summary run for full fiscal year in QuickBooks
☐	Total gross wages reconciled to all four IRS Form 941 filings
☐	PERS/TERS contributions reconciled to state remittance statements

✓	**Payroll Verification Checklist**
☐	All W-2s confirmed accurate (calendar year-end only)
☐	Payroll tax deposits confirmed timely — no late payment penalties
☐	All employee pay rates verified against council-approved schedule
☐	Year-end accrued wages journal entry recorded (if pay period crosses year-end)
☐	Payroll Summary and Employee Earnings Summary saved to Audit Folder

Section 4: Grant Documentation

Why Grant Records Are Especially Important

Most Alaska municipalities receive state or federal grants. Grant funds carry strict compliance requirements about what costs are allowable, how funds must be tracked, and what records must be kept. If you cannot document how grant dollars were spent, those costs may be disallowed — and your city may be required to return the funds.

Federal Grant Compliance Reference
2 CFR Part 200 (Uniform Guidance) — Governs allowability, documentation, and internal controls for all federal grants.
Single Audit: Required when a municipality expends $750,000 or more in federal awards in a fiscal year.
Record Retention: Federal grant records must be kept for at least 3 years from the date the Final Federal Financial Report is submitted.
Alaska DCCED Grants — Subject to additional state requirements. Review each grant agreement carefully for specific conditions.

Step	What to Do
1 — Create a Grant Inventory	List every active grant: name, grantor agency, grant number, award amount, period of performance, and next report due date. Update this list throughout the year.
2 — Reconcile Grant Expenditures	In QuickBooks, run a report filtered to each grant's class or job code. Total expenditures must match the amounts on your drawdown requests and financial reports to the grantor.
3 — Gather Award Documents	Locate the signed grant agreement, all amendments, and any significant grantor correspondence. These documents must be in your audit file.
4 — Match Costs to Documentation	Every expense charged to a grant must be supported by a vendor invoice, receipt, or payroll record that shows the cost was for an allowable grant purpose.
5 — Confirm Matching Requirements Met	If the grant requires a local match (cost share), verify the required match amount is documented, recorded in QuickBooks, and supported by documentation.
6 — Review Reporting Deadlines	Check all Financial Status Reports (FSRs) and performance reports. Confirm every required report has been submitted on time. Late reports can jeopardize future funding.

✓	Grant Documentation Checklist
☐	Active grant inventory list complete and current
☐	QuickBooks grant expenditures reconciled to drawdown requests for each grant
☐	Signed grant agreements and all amendments on file
☐	Vendor invoices and receipts supporting all grant expenditures collected and organized

✓	**Grant Documentation Checklist**
☐	Local match documentation confirmed, recorded in QuickBooks, and supported
☐	All Financial Status Reports and performance reports submitted on time
☐	Completed grant closeout documentation on file for any grants that have ended
☐	All grant files organized in Audit Folder > 03 Grant Files > [Grant Name]

Section 5: Governing Body Approvals and Council Records

Why This Documentation Is Required

Municipal expenditures, budget changes, employee wages, and major contracts must be formally authorized by the city council or governing body. Auditors verify that the governing body approved key financial decisions. Missing meeting minutes or unsigned resolutions are among the most avoidable audit findings.

Document Required	Why Auditors Request It
Council Meeting Minutes	Primary evidence of governing body authorization for expenditures, budgets, contracts, and policy decisions.
Adopted Annual Budget Resolution	Required to establish appropriation authority. All expenditures must remain within the adopted budget.
Budget Amendment Resolutions	Required for any changes to the adopted budget. If actual spending exceeded original appropriations without amendment, this is an audit finding.
Approved Salary/Wage Schedule	Authorizes employee pay rates. Auditors compare this to QuickBooks payroll records.
Executed Contracts and Agreements	Documents authorized financial commitments. Must be signed by the authorized municipal official.
Investment Policy	Required documentation for any invested municipal funds. Must confirm investments comply with Alaska statutes and municipal policy.

✓	Governing Body Documentation Checklist
☐	Council meeting minutes for every meeting during the fiscal year located and filed
☐	Adopted annual budget resolution on file
☐	All budget amendment resolutions on file
☐	Council-approved salary and wage schedule on file — matches QuickBooks payroll rates
☐	All executed contracts on file — amounts match QuickBooks records
☐	Governing body approval documented for any expenditures outside the adopted budget
☐	Council records organized in Audit Folder > 08 Council Records

Section 6: QuickBooks Year-End Review

Step 1 — Back Up QuickBooks First

Always create a backup before making any year-end changes. This protects you if something goes wrong.

- Go to: File > Back Up Company > Create Local Backup
- Save the file to an external drive or secure cloud folder (NOT only on your local computer)
- Name it clearly: CityName_QBBackup_YYYY-MM-DD.qbb

Step 2 — Review the Chart of Accounts

Review Item	What to Look For and Fix
Duplicate or inactive accounts	Identify duplicates and merge them. Confirm no transactions were coded to wrong accounts during the year.
'Uncategorized' or 'Ask My Accountant' transactions	All transactions coded to these placeholder accounts must be re-coded to the correct accounts before year-end.
Negative balance asset accounts	A negative balance in a bank or asset account usually means a posting error. Investigate before finalizing.
Accounts inconsistent with budget structure	Your chart of accounts should match your adopted budget structure so reports tie back to appropriations.

Step 3 — Run and Save Key Year-End Reports

Report Name	Where to Find It in QuickBooks
Balance Sheet	Reports > Company & Financial > Balance Sheet Standard (as of fiscal year-end)
Profit & Loss / Revenue & Expenditure Statement	Reports > Company & Financial > Profit & Loss Standard (full fiscal year)
General Ledger	Reports > Accountant & Taxes > General Ledger (full fiscal year)
Trial Balance	Reports > Accountant & Taxes > Trial Balance (as of fiscal year-end)
Check Detail Report	Reports > Banking > Check Detail — scan for unusual or large payments
Vendor Balance Summary	Reports > Vendors & Payables > Vendor Balance Summary

Step 4 — Set the Closing Date (After Audit)

Once your audit is complete and all final adjusting entries have been posted, set the QuickBooks closing date to lock the prior year from accidental changes.

- Go to: Edit > Preferences > Accounting > Company Preferences
- Set the Closing Date to the last day of the fiscal year
- Assign a closing date password — only share with authorized personnel

✓	**QuickBooks Year-End Review Checklist**
☐	QuickBooks backup created and saved to a secure external location
☐	Duplicate or inactive chart of accounts cleaned up
☐	All 'Uncategorized' and 'Ask My Accountant' transactions re-coded to proper accounts
☐	Balance Sheet reviewed — no unexplained negative balances
☐	Profit & Loss / Revenue & Expenditure Statement reviewed for reasonableness vs. prior year
☐	All journal entries reviewed and supported with written documentation
☐	General Ledger printed/saved to Audit Folder > 06 Financial Reports
☐	Trial Balance printed/saved to Audit Folder > 06 Financial Reports
☐	Balance Sheet printed/saved to Audit Folder > 06 Financial Reports
☐	QuickBooks closing date set after audit completion

Section 7: Audit Support File Organization

Organizing your audit file before your auditor arrives reduces back-and-forth requests, shortens fieldwork time, and demonstrates strong financial management. Use the folder structure below as your standard.

Folder	Subfolder	What to Include	Notes
01 — Bank Reconciliations	One subfolder per account	Monthly reconciliations + bank statements (all 12 months)	Must be 100% complete before audit
02 — Payroll	Payroll Summary / 941s / PERS	Annual payroll summary, 941 returns, PERS remittances, W-2s	Reconcile QB totals to 941 totals
03 — Grant Files	One subfolder per grant	Award letter, agreement, amendments, FSRs, invoices	Include closeout docs for ended grants
04 — Accounts Payable	—	AP Aging Summary (year-end), vendor invoices, 1099 documentation	Reconcile to QB AP balance
05 — Accounts Receivable	—	AR Aging Summary, billing records, collection notes	Explain any balances over 90 days
06 — Financial Reports	—	Balance Sheet, P&L, General Ledger, Trial Balance	All dated at fiscal year-end
07 — Supporting Schedules	—	Fixed asset listing, debt schedule, prepaid expenses	Balances must agree to QuickBooks
08 — Council Records	—	Minutes, adopted budget, amendments, salary schedule	All meetings during fiscal year
09 — Prior Audit Findings	—	Prior audit report, management letter, corrective actions	Show how prior findings were resolved
10 — Contracts	—	Executed contracts, MOUs, agreements active during year	Note expiration dates

ℹ **File Naming Best Practice**

Use consistent names like: 2024-06_BankRecon_Checking.pdf or 2024_941_Q2.pdf. Consistent naming lets you immediately confirm all required documents are present.

Section 8: Common Audit Findings and How to Prevent Them

The following findings appear most frequently in small Alaska municipal audits. Knowing them in advance allows you to prevent them.

Finding	Root Cause	How to Prevent It	Risk Level
Missing or incomplete bank reconciliations	Skipped due to staff turnover or workload	Reconcile monthly within 10 business days. Use Section 1 checklist.	HIGH
Expenditures without adequate documentation	Invoices lost or never obtained	Require invoice before payment. Scan immediately and file.	HIGH
Unsupported grant expenditures	Costs charged to grants without matching invoices or payroll records	Maintain a separate invoice file per grant. Match every charge to documentation.	HIGH
Budget overruns (spending over appropriation)	Spending exceeded budget without a council amendment	Monitor budget vs. actual monthly. Bring amendments to council before overspending.	HIGH
Payroll tax remittance delays	941 deposits late, resulting in IRS penalties	Set calendar reminders for all 941 deposit due dates.	MEDIUM
Inherited QuickBooks errors	Prior staff errors not discovered until audit	Run a full QB review (Section 6) at the start of each fiscal year.	MEDIUM
Missing council authorization for expenditures	Contracts or payments made without governing body approval	Review authorization requirements with your city attorney or SNAPP advisor.	MEDIUM

Master Year-End Close Checklist

Use this master checklist to track overall completion. Mark a phase complete only when all items in it are done — not just started.

Phase 1: Stabilize

✓	Phase 1 — Stabilize
☐	All municipal bank accounts identified and verified in QuickBooks
☐	QuickBooks backup created and saved to secure location
☐	Oldest unreconciled month identified — reconciliation work begun
☐	Outstanding vendor invoices collected and entered in QuickBooks
☐	Chart of accounts reviewed — errors and duplicates identified for cleanup

Phase 2: Organize

✓	Phase 2 — Organize
☐	Audit folder structure created per Section 7
☐	All 12 months of bank statements collected for every account
☐	All 12 months of bank reconciliations completed for every account
☐	Grant inventory list created and current
☐	All council meeting minutes for fiscal year located and organized
☐	Payroll records organized and 941 totals verified

Phase 3: Prepare

✓	Phase 3 — Prepare
☐	Balance Sheet reviewed — all balances confirmed and supported
☐	Revenue & Expenditure Statement reviewed for accuracy
☐	General Ledger saved to Audit Folder
☐	Trial Balance finalized and saved
☐	All grant expenditures reconciled to drawdown records
☐	AP Aging Summary prepared as of fiscal year-end

✓	Phase 3 — Prepare
☐	Year-end payroll accrual recorded (if applicable)
☐	Prior audit findings reviewed — corrective actions documented
☐	Complete audit file organized per Section 7 folder structure

Phase 4: Sustain

✓	Phase 4 — Sustain
☐	QuickBooks closing date set after audit completion
☐	Monthly bank reconciliation schedule established for new fiscal year
☐	Audit management letter reviewed with supervisor or council
☐	All corrective action items assigned with responsible staff and due dates
☐	New fiscal year budget entered in QuickBooks
☐	Grant tracking list updated with any new awards

Quick Reference: Key QuickBooks Report Locations

Report	QuickBooks Menu Path	Use It For	File Location
Bank Reconciliation Summary	Banking > Reconcile > Reconcile Now	Monthly close; primary audit support	Audit Folder/01 Bank Recons
Balance Sheet	Reports > Company & Financial > Balance Sheet Standard	Year-end review and audit	Audit Folder/06 Financial Reports
Profit & Loss Statement	Reports > Company & Financial > Profit & Loss Standard	Year-end review; budget comparison	Audit Folder/06 Financial Reports
General Ledger	Reports > Accountant & Taxes > General Ledger	Full transaction detail for auditors	Audit Folder/06 Financial Reports
Trial Balance	Reports > Accountant & Taxes > Trial Balance	Pre-audit final check	Audit Folder/06 Financial Reports
A/P Aging Summary	Reports > Vendors & Payables > A/P Aging Summary	Year-end payables review	Audit Folder/04 AP
A/R Aging Summary	Reports > Customers & Receivables > A/R Aging Summary	Year-end receivables review	Audit Folder/05 AR
Payroll Summary	Reports > Employees & Payroll > Payroll Summary	Payroll verification; 941 reconciliation	Audit Folder/02 Payroll
Check Detail	Reports > Banking > Check Detail	Review unusual payments	As needed

Disclaimer

This toolkit is published by the Arctic Slope Community Foundation as part of the Success for Nonprofit Audit Preparation Program (SNAPP) Modified Virtual Support Program. It is intended to provide general operational guidance and technical assistance for municipal finance staff.

SNAPP provides advisory and technical assistance only. This document does not constitute legal, accounting, or audit advice. Participating municipalities remain solely responsible for:

- The accuracy and completeness of all accounting records
- All official financial approvals and governing body actions
- Financial reporting to state and federal agencies
- Submission of audit materials and responses to audit findings
- Implementation of any recommendations contained in this toolkit

References to federal and state regulations are provided for informational purposes only. Municipalities should consult with their auditor, legal counsel, or the Alaska Municipal League for guidance on specific compliance questions.

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