

Audits

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Objectives

- Purpose of an audit and some common definitions
- Common noncompliance findings for small governments
- Common recommendations for small governments
- Key takeaways

Purpose of an audit

- Why do you have an audit?
 - ORC 117.11, OAC 117-2-03, ORC 117.38
- What's the government's responsibility?
- What's the auditor's responsibility?
 - Reports issued:
 - Independent Auditor's Report
 - Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (GAGAS letter)
 - Independent Auditor's Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the *Uniform Guidance* (Single Audit letter)

What is the focus of an audit?

- Material areas:
 - Financial – errors and fraud
 - Compliance – direct and material
 - ORC/OAC – budgetary, PO compliance, timely deposits
 - Legal matrix provided
 - Uniform Guidance – allowable costs, procurement, cash management

Do you understand your audit?

- It is common for organizations to not fully understand their audit or its results
- Proposed findings – do they make sense?
 - Don't wait till the end of the audit to discuss these. Ask what is going on during each stage of the audit.
 - Do you understand the severity of the findings?
- Use the audit as a learning mechanism
- Don't fear your auditor
- What sections of an audit report are most important to you?
 - Schedule of findings and “responses” or “corrective action plan”
 - Management letter findings/recommendations
 - Managements Discussion & Analysis

Types of Findings

Types of findings:

- Five levels of control deficiencies/recommendations:
 - Report citations:
 - Material weakness - deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.
 - Significant deficiency - is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
 - Material noncompliance – this would be noncompliance with ORC/OAC.
 - Non-report citations:
 - Management letter – less severe than a MW or SD. Recommendation or compliance issue that could become a reportable citation if not corrected.
 - Verbal recommendation – very minor, but important enough for management to be made aware.

Additional definitions

- Opinion unit – a reporting unit (major fund) or aggregation of reporting units.
- Required supplementary information (RSI) – required by the Governmental Accounting Standards Board (GASB) to be included as part of your financial report.
- Supplementary information (SI) – accompanies the basic financial statements (BFS) and is ‘derived’ from the same information as the BFS.
- Internal controls – the policies and procedures the local government has in place to mitigate the risk of error and fraud.
 - Required to have these in place and operating effectively over financial reporting and compliance.

Common audit findings – noncompliance (1)

- Finding: Ohio Revised Code(ORC) 149.43 – Public Records Act
 - Ohio governments are required to make public records available for inspection or copying by the public.
- Citation level: management letter
- How to avoid:
 - Policies
 - Meetings
 - Training

Common audit findings – noncompliance (2)

- Finding: ORC117.38/Ohio Administrative Code (OAC) 117-2-03 – Annual financial reporting
 - Hinkle Report
 - Filing basis – GAAP basis, or cash/regulatory basis
 - Most governments are required to file a GAAP basis report within 150 days of their FYE. If cash or regulator basis, you must file within 60 days of FYE.
- Citation level: report citation, management letter
- How to avoid:
 - Know your deadline and give yourself plenty of time to file

Common audit findings – noncompliance (3)

- Finding: ORC5705.41(D) – Certification of expenditures
 - PO noncompliance - no orders or contracts involving the expenditure of money are to be made unless there is certificate of the fiscal officer that the amount required for the order or contract has been appropriated
 - Then & Now can be used if necessary
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Require a requisition from the department before entering a PO
 - Hold people accountable
 - Training

Common audit findings – noncompliance (4)

- Finding: Uniform Guidance Noncompliance
 - Allowable costs/cost principles (200.420 – 200.475)
 - Procurement (200.317 – 200.327)
 - SEFA inaccuracies (200.510b)
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Read your policies – do you even have policies?
 - Training of staff that handle federal activity
 - Read the grant agreements and other available guidance (FACCR)

Common audit findings – noncompliance (5)

- Finding: Budgetary noncompliance (ORC 5705.39/5705.41(B))
 - 5705.39 - You cannot appropriate more than your estimated resources.
 - 5705.41(B) – You cannot spend more than you budget.
 - Should be at the legal level of control (ORC 5705.38)
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Actively monitor
 - Create templates
 - Governing body involvement
 - Use your system

Common audit findings – noncompliance (6)

- Finding: ORC 9.38 – deposit of public money
 - Money collected must be deposited timely
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Have policies in place and hold departments accountable.
 - Take funds to the bank daily or set up an electronic means to deposit funds.

Common audit findings – noncompliance (7)

- Finding: ORC 5705.14, 5705.15, 5705.16 – transfer of funds
 - Transfers – permanent movement of money from one fund to another.
 - Requires governing body approval
 - Commonly confused with advances
 - Approval by the tax commissioner or courts
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Be familiar with the requirements of ORC 5705.14/15/16.
 - Educate your governing body
 - Consult your auditor

Common audit findings – noncompliance (8)

- Finding: ORC 5705.13(C) - capital project reserve funds
 - 10 Year Rule
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Follow your ordinance or resolution

Common audit findings – noncompliance (9)

- Finding: ORC 3317.0212 & 3314.091; OAC 3301-83-001(C) - T-1 & T-2 forms
 - Transportation funding
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Ohio Department of Education instructions
 - T-1 count sheets
 - T-2 accurate function and obj codes

Common audit findings – noncompliance (10)

- Finding: ORC 5705.412
 - Certification of adequate revenues
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Appropriation measurers
 - Negotiated agreements(salary schedules)
 - Qualifying Contracts

Common audit findings – recommendation (1)

- Finding: audit adjustments and financial statement errors
 - Material errors within the report you provide your auditor (Hinkle submission)
 - This includes the notes
 - **Remember** – it is your responsibility to prepare the complete financial report.
- Citation level: report citation, management letter
- How to avoid:
 - Be involved in the financial statement process.
 - Someone with the necessary skill, knowledge, and experience should oversee the process.
 - Review the report prior to uploading to the Hinkle system
 - If you prepare the report yourself (cash/regulatory basis), consider having another person with a financial background review the report.

Common audit findings – recommendation (2)

- Finding: segregation of duties
 - This is a big one!
 - One person performing too many functions within a given area.
 - Big fraud risk.
 - Fraud triangle – opportunity, motivation, justification
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Separate tasks when possible
 - Rotate tasks periodically
 - Risk assessment
 - Governing body involvement

Common audit findings – recommendation (3)

- Finding: internal control deficiencies
 - Controls are not properly designed
 - Inconsistencies in the implementation of control procedures
 - Cruise control
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Document your internal control policies
 - Employee trainings
 - Accountability
 - Share audit results with employees

Common audit findings – recommendation (4)

- Finding: bank reconciliation deficiencies
 - You should be reconciling all accounts to zero unidentified differences.
 - Don't forget the smaller accounts also need reconciled
 - Be aware of outside accounts
 - No PLUG NUMBERS!
 - Should be reconciled timely
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Plan ahead
 - Seek help, if needed
 - Board approval

Common audit findings – recommendation (5)

- Finding: board oversight, review, approval, monitoring
 - Governing body is not involved in the organization.
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Include governing body in important decisions.
 - Review documentation
 - Read policies and procedures
 - Top-down approach

Common audit findings – recommendation (6)

- Finding: lack of supporting documentation
 - No support or insufficient support for receipts and expenditures.
 - Opinion modification
 - Big red flag
- Citation level: report citation, management letter
- How to avoid:
 - You guessed it...**MAINTAIN SUPPORT!**

Common audit findings – recommendation (7)

- Finding: SOC-1
 - Computer services, self-insurance, ems billing, third party payroll processing
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Assessing the SOC-1
 - User control consideration

Common audit findings – recommendation (8)

- Finding: finding for recovery
 - Can only be issued by the Auditor of State
 - Common items issued for:
 - No support
 - Salary overpayments
 - Alcohol purchases
 - Theft in office
 - Late fees/penalties
- Citation level: report citation, management letter, verbal
- How to avoid:
 - Be aware of deadlines
 - Develop your controls with these items in mind



Key Takeaways

- Take the time to understand the results of your audit. Ask Questions! Request an exit conference!
- Familiarize yourself with the Ohio Compliance Supplement and Uniform Guidance. Understand the sections applicable to your entity.
- Separate duties within each process as much as reasonably possible. Include members of the governing body if necessary.
- Educate your staff so they are aware of internal procedure and policies. This will help you avoid material noncompliance and reportable recommendations.
- Become familiar with the IT function of your organization.



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Questions?

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