



Audit Requirements

**Chase Lenon, CPA – Director of Audit
Services – Schools/Townships**

Contact Information



- Website – <https://www.in.gov/sboa/4445.htm>
- Phone – (317) 232-2512
- Email – Schools.Townships@sboa.in.gov

About the State Board of Accounts



- Created in 1909 in response to widespread corruption
- Mission Statement
 - We are dedicated to providing the citizens of the State of Indiana with complete confidence in the integrity and financial accountability of state and local government.
- Responsibilities
 - Perform audit/exams of all governmental units
 - Prescribe forms and procedures used by governmental units
 - Various other duties including recounts, providing training for local officials, consulting services, etc.

SBOA Staff



Organizational Flowchart

- SBOA Board (State Examiner, 2 Deputies)
- Directors (2 per area)
 - Schools and Townships
 - Cities/Towns and Special Districts
 - Counties
- Audit Coordinators (5)
- Investigation Coordinators (2)
- Field Examiners (200+)

Audits



- How often are you audited?
 - Risk Based Criteria IC 5-11-1-25
 - Not to exceed once every four (4) years
- Types of Engagements:
 - Financial Audit
 - Federal Audit (Single Audit)
 - Compliance Reviews
 - Special Investigation

Types of SBOA Engagements



Single Audit

- Required for Townships that exceed the threshold of federal grant expenditures

Audit

- Required for Townships that have outstanding debt

Compliance

- Required for Townships that do not have outstanding debt, but are assessed at a High level of risk

Centralized Compliance

- Required for Townships that do not have outstanding debt, but are assessed at a Moderate or Low level of risk

Special Investigation

- Required for Townships in which the SBOA had determined a need to review specific areas for a specific time period

Centralized Engagements

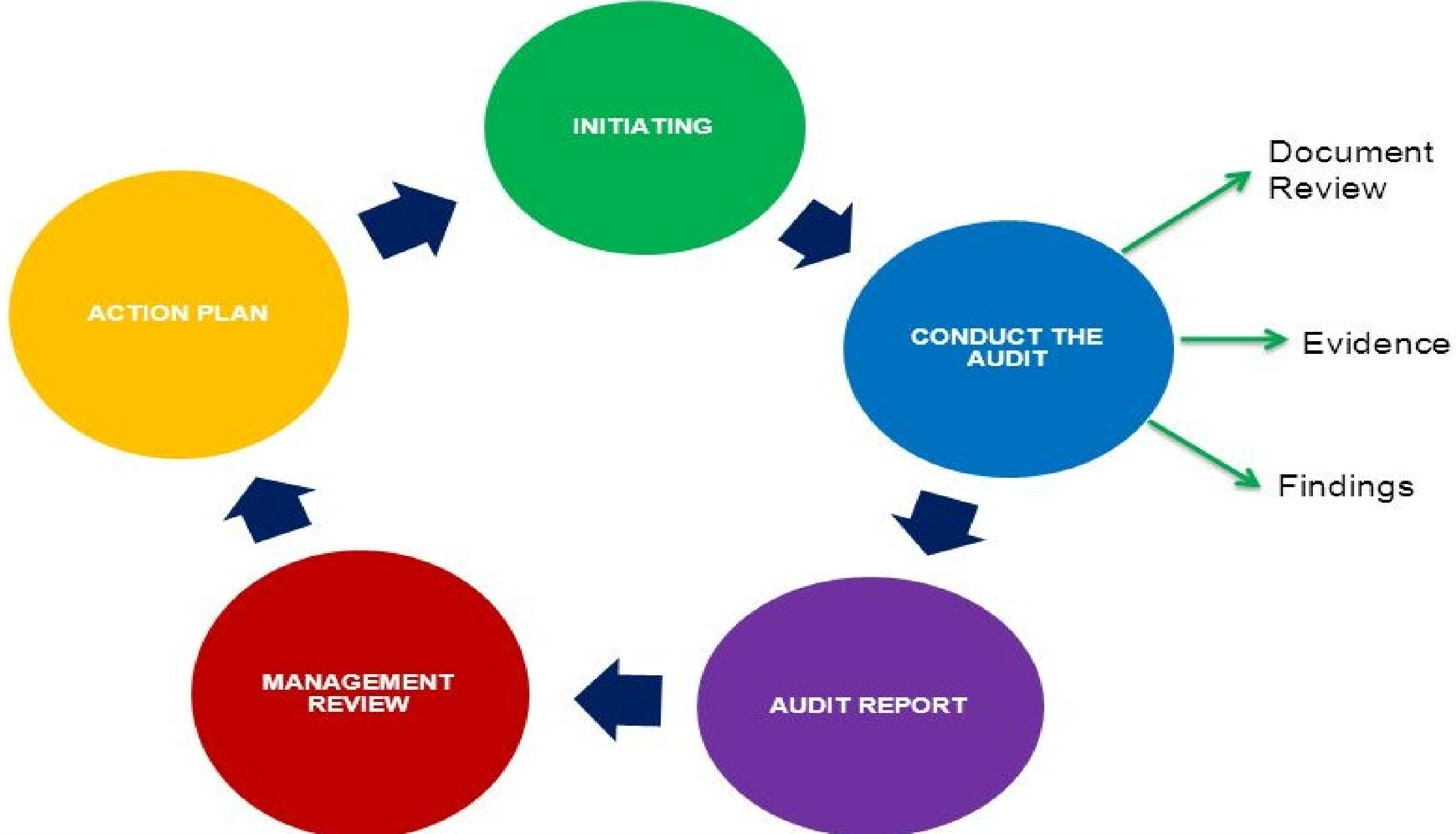


- Engagement Strategies
 - Director: Beth Kelly
 - Contact: Communications@sboa.in.gov
- More efficient and less costly audits.

Centralized Compliance Review



- Remote Audit
- Gateway files and other information requested via email.
- On-site assistance may be requested, if needed.
- There will still be a report issued at the end of our review.
- Only entities assessed (by the SBoA) to be **low or moderate risk** allowed to be reviewed in this manner.



Entrance Conference



- Examiners should explain objective of engagement.
 - Testing for non-compliance, obtaining assurance etc....
- Explanation of Management's responsibilities
- Informing management of fees, records to be requested, estimated timeline of engagement.
- **Please ask any questions** if you are not clear on anything the examiner provides or requires!

Form 13 – Approval of Financial Statements



- Used for engagements that are not having a compliance review.
- Field Examiner presents Financial Statements from Gateway AFR Submission
- Township must sign off that these numbers match the official record.
 - If not, **provide us a list of corrections!**

TOWNSHIP RECORD REQUEST AND RECEIPT

Name of Governmental Unit: _____

We are conducting an examination of your office for the period ___ through ___. For the period being examined, please bring the following records to ___, Indiana, on ___ at ___, or call us at ___ to make other arrangements. (or For the period being examined, we will pick up the following records on ___ at ___. If this date and time is not convenient, please call us at ___ to make other arrangements.) A review of certain records may be made to the current date. The State Board of Accounts' field examiner and the official or their designee will sign this form for all records received and provided. The records will be returned by _____. If the records are needed beyond this date, you will be notified. If any records are needed while in the custody of SBOA, please contact the field examiner at the email or phone number provided below. Once the examination is complete, you will be required to sign for all records

Date Records Received

Date Records Returned

Records Requested	Received	Returned	Comments
Township Board Minutes and Board Resolutions - include to current date.			
Resolutions Recommending Salaries - Form 17			
Financial and Appropriation Records (Township Ledger).			
Bank reconcilements, outstanding checklists, bank statements, cancelled checks, etc.			
Register of Investments (Form 350), certificate of deposits, and any other investment records and documents for the period - include to date. Include Annual Investment Reports filed with Board of Finance.			
All debt documents, including notes, bonds, and loan agreements - include to current date. You should also include amortization schedules.			
All supporting documentation for expenses paid, i.e., itemized bills, invoices, mileage claims and contracts.			
Proofs of publications of all legal advertising paid.			
Duplicate receipts.			
Payroll records, including: Employees Service and/or Earnings Records; W-2s; W-3s; 941s; WH-3s; W-4s; 1099s; payroll withholdings remittance forms, communication with IRS or Indiana Department of Revenue.			
Specifications, bids, contracts, etc. in connection with construction or remodeling of buildings, and purchases of equipment and supplies.			
Documentation from the Department of Local Government Finance (DLGF) approving additional appropriations for each year.			
All contracts, e.g., Fire Protection, Cemetery, Ambulance, Mowing, etc.			
Township Assistance records, including applications submitted and the written Township Assistance Standards required by IC 12-20-5.5-1.			
Documentation regarding Federal, State, or Local Grants received			
Documentation from County Auditor regarding tax distributions, including Copies of year-end certifications that elected officials did not violate nepotism and contracting laws as required by IC 36-1-20.2-16 (nepotism) and 36-1-21-6 (contracting).			
Official Bond Information - include to current date			
** NOTE TO OFFICIAL: PLEASE DO NOT INCLUDE YOUR CURRENT CHECK BOOK WITH THE RECORDS PROVIDED			

I hereby acknowledge the receipt of the above records as indicated by an X.

I hereby acknowledge that the above records were provided as indicated by an X to SBOA.

Field Examiner - Printed

Official Name - Printed

Field Examiner Signature

Official Signature

Email Address

Email Address

Phone Number

Phone Number

I hereby acknowledge that the above records were returned as indicated by an X.

Official Signature

Documentation Normally Requested



- Board Minutes (include to current date)
- Resolutions
- Contracts
- Financial Records (ledger)
- Reconcilements
- Register of Investments
- Debt Documents
- Receipts
- Payroll records

Compliance Procedures to Expect



- Comparisons of AFR to Township ledger
- Expenditures in excess of appropriations
- Monthly bank reconcilements
- Salaries paid in accordance with contracts
- Payroll remittance to IDOR + IRS
- Proper disbursements with supporting documentation
- Officials properly bonded
- **Prior comments** resolved

Form 7 – Understanding of Internal Controls



- Used for engagements that are not having a compliance review
- Required **per Auditing Standards**

Form 9 – Understanding the Entity and It's Environment



- Used for engagements that are not having a compliance review
- Required **per Auditing Standards**

Form 22 – Accumulation of Audit
Differences Evaluation



- Used for engagements that are not having a compliance review.
- Identifies the errors we found.
- Suggest corrections if material.
 - If corrections not made, **audit opinion modification**

Exit Conference



- **Draft** report provided and discussed.
- Chance to respond to comments (Form 4) – 10 days.
 - Corrective Action Plan discussed if **repeat comments** in report.
- Official's term, email and physical addresses verified.

How Do I Prepare for an Audit?



- Before an audit starts, have following things in order:
 1. Monthly **bank accounts reconciled**.
 2. Make sure all **schedules are complete** (capital asset listing, investments, inventory etc....).
 3. **Supporting documentation** for expenses are in an orderly fashion.
 4. **Check that employee pay was correct.**
 - Withholding filings (W-2/941/WH3), form 17, and entries in the ledger to paychecks and contracts.
 5. **Verify policies** are updated.
 6. Come with a list of questions!

Tips



- During the year track restricted grants, gifts, donations etc...
- Keep internal control documentation and supporting documentation together.
- Respond quickly to inquiries – smaller audit bill.
- Establish an ‘auditor’ file:
 - Could include: regulatory agency correspondence, contracts, lawsuits, reconciliations...

Ask Us Questions!



- HB 1031 (2017) – repeat comments have consequences.
 - Make sure to get an idea on how to fix problems before the examiner leaves.
 - If not, contact us at schools.townships@sboa.in.gov
- Implement fixes immediately!
 - 4 year audit cycles – a comment could only pertain to one year, overshadows compliant years.

What Not To Do



- Panic!
- Try to hide things – we are here to help!
 - The auditor should be viewed as a resource, not an adversary.
- Be afraid to ask questions.
- Try not to look at an audit as something to complicate your life!
 - An audit is a irreplaceable tool to ensure your finances are in order.

Statement of Engagement Cost



- Includes:
 1. Number of days spent on the audit.
 2. Daily/hourly rate.
 3. Report processing fees.
- **NOT an invoice that is to be paid!!**
 - An invoice of these audit costs will be sent to your County for payment.
 - Taken out of the Township's next distribution from the County.
 - Please keep this statement as documentation.
- We will not take exception to the use of property tax funds to cover audit costs.
- Township fund can reimburse the fund in which it was withheld by the County.



Audits in a Remote World

Remote Audits – Tips and Tricks



- Auditors working 99% from home
- Requests to come via email/phone
 - Virtual meetings available via WebEx or Teams
 - Documentation to be uploaded in Gateway (no email!)

Remote Audits – Tips and Tricks



- Explain what your COVID-19 protocol is
- Please acknowledge requests when received

Remote Audits – Tips and Tricks



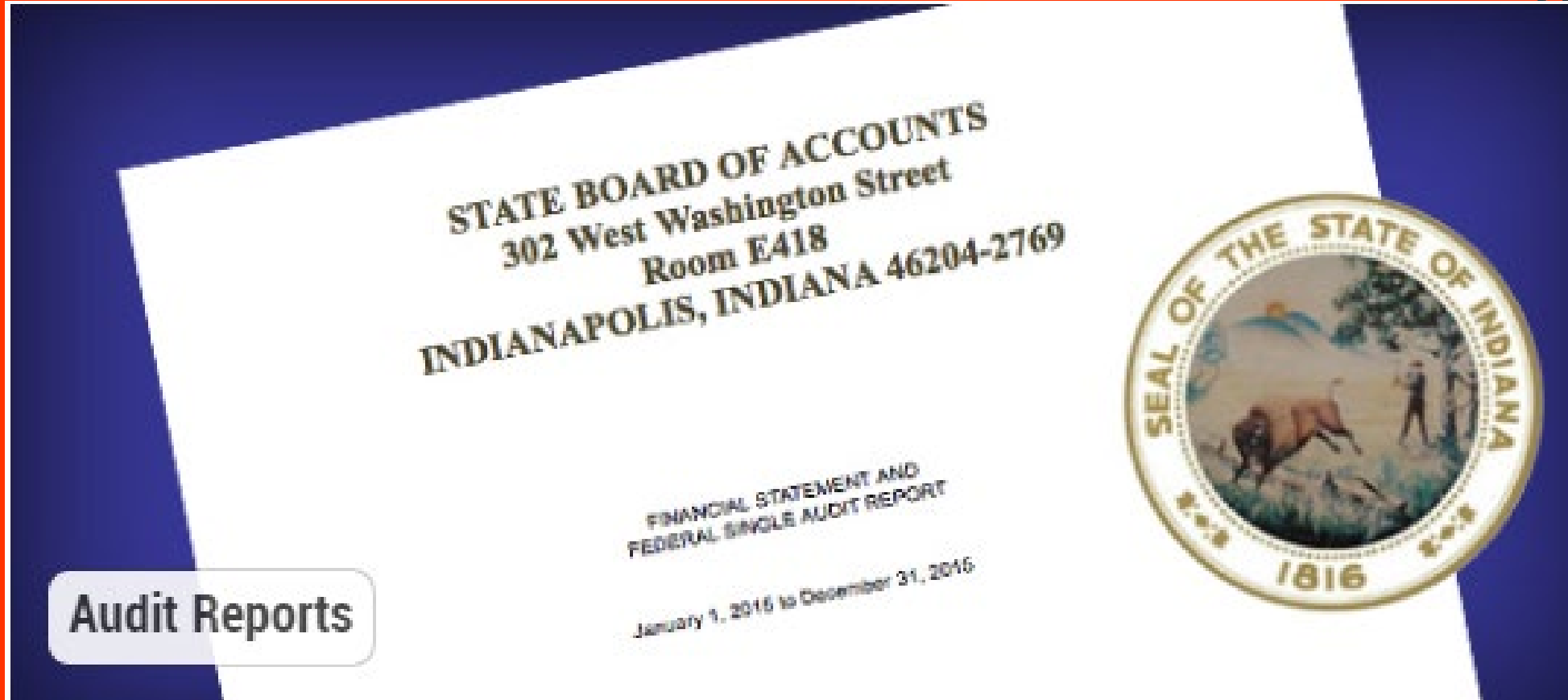
- Documents sent prior to audit should be completed as quickly as possible
- Ensure you are uploading monthly in Gateway

Remote Audits – Tips and Tricks



- Remote auditing is new to us too!!
 - Please be patient
- Our auditors enjoy being onsite and we hope to get back to this eventually

Common Compliance Review Comments



Audit Reports

Findings



1. Audit Result and Comment (ARC)

- **Written Comment**

2. Management Letters

- **Letter** to official/board
- Did not rise to the level of “Significant and Impactful”

3. Verbal Comments

- **Verbally communicated**
- Didn't rise to level of management level, but still warrants attention to official

4. Federal findings

Failure to Report Misappropriation of Funds



- IC 5-11-1-27(I)
- Audit Finding 100% of instances
- Telephone, email, website acceptable

Annual Financial Report Errors



- *“The Annual Financial Report filed on Gateway for 20XX contained errors and did not match the Township’s records”.*
- Email Gateway@sboa.IN.gov – for AFR questions.

Internal Control Related to Township Disbursements



- *“The Township has **failed to implement the controls** necessary to insure the proper disbursement of township funds. No review or control procedures have been implemented to insure the validity of the disbursements for authorized purposes.”*

Penalties, Interest, and Other Charges



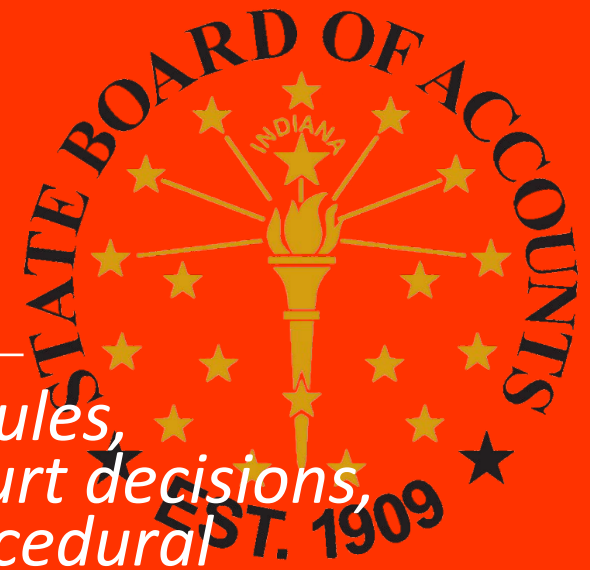
- *The Township paid penalties, interest, and other charges to various vendors in the amount of \$_____ because the Trustee did not remit payments to vendors on a timely basis.*

Establishment of Salaries



- *The Township Board **did not fix the salaries** of the Township officials and employees for the year 20XX, as required by Indiana Code 36-6-6-10(b).*
- *Trustee's annual salary covers all the duties listed in IC 36-6-4-3.*

W2s not issued



- *Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1).*
- **Must withhold taxes from employees and issue W2s**
- IRS requires a 1099 to be issued to employee that receives over \$600 of nonemployee payments – this includes the rent paid to Trustees.

Township Assistance Standards



- *“Township Assistance Standards were not established in accordance with Indiana Code 12-20-5.5-1”.*
- *Requirements:*
 1. *Proposed by the township trustee,*
 2. *Adopted by the township board,*
 3. *Filed with the board of county commissioners,*
 4. *Reviewed and updated annually to reflect changes in the cost of basic necessities in the township and changes in the law,*
 5. *Published in a single written document*
 6. *Posted in a place prominently visible in all offices where township assistance applications are taken or processed.*

Receipts Not Deposited Timely



- *Indiana Code 5-13-6-1(c) states in part: "... public funds collected by township trustees shall be deposited in the designated depository on or **before the first and fifteenth day of each month.**"*

AFR and 100-R Not Filed Timely



- 1-5 days late → Verbal Comment
- 6-29 days late → Management Letter
- 30+ days late → Audit Comment
- Report Assistance → Gateway@sboa.in.gov

Surety Bonds



- *The Trustee's Surety Bond was insufficient per the Indiana Code 5-4-1-1. The bond recorded in the County Recorder's office for 20XX was for \$_____ instead of the **required \$30,000**. In addition, no bond was recorded for 20XX.*

Depository Reconciliations



- *Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."*

Policies



- The Township did not have a Contracting Policy for 20XX.
- The Township did not have a Materiality Policy for 20XX.
- The Township did not have a Credit/Debit/Gift Card Policy for 20XX.
- The Township did not have a Travel Policy for 20XX.
- The Township did not have a Investment Policy for 20XX.
- The Township did not have a Employee Benefits Policy for 20XX.
- The Township did not have a Overtime Policy for 20XX.
- The Township did not have a Bad Debt Policy for 20XX.
- The Township did not have a Capital Asset Policy for 20XX.

Lack of Supporting Documentation



- *Payments were observed which did not contain adequate **supporting documentation**, such as receipts, invoices, and other public records for 20XX.*

Financial and Appropriation Record



- *“Financial records presented were incomplete and not reflective of the activity of the Township. Deficiencies included:
 1. Transactions not recorded.
 2. Receipts/Expenditures posted to incorrect funds”.*

Disbursements in Excess of Budget Appropriations



- *Indiana Code 6-1.1-18-4 states in part: “...proper officers of a political subdivision shall appropriate funds in such a manner that the **expenditures for a year do not exceed its budget** for that year as finally determined under this article.”*

Funds Sources and Uses



- *Sources and uses of funds must be limited to those **authorized** by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for ____, Chapter 1)*

Overpayment Collections



- *Units must **collect any overpayments** made. (Accounting and Uniform Compliance Guidelines Manual for ____, Chapter 1)*

Overdrawn Cash Balances



- *The cash balance of **any fund may not be reduced below zero**. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)*



Questions?