

THE STATE AGENCY BULLETIN

AND UNIFORM COMPLIANCE GUIDELINES
ISSUED BY STATE BOARD OF ACCOUNTS

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STATE AGENCY ADVISORY SERVICES

The State Board of Accounts (SBOA) has created a new advisory service for state agencies to provide guidance from an SBOA perspective on accounting and compliance guideline requirements, internal control best practices, resolution of audit issues and more. We are here to serve you! The best way to contact us is through our shared inbox and phone number:

stateagencyadvisory@sboa.in.gov; 317-232-2513

However, if you prefer, feel free to contact us at our personal email addresses as follows:

Debbie Gibson: dgibson@sboa.in.gov

Susan Gordon: sgordon@sboa.in.gov

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TRAINING OPPORTUNITIES

In an effort to help you resolve audit findings related to reporting under the Federal Funding Accountability and Transparency Act (FFATA), we have developed a short video which may be found through this link <https://www.youtube.com/watch?v=AmahdzlhBjU>

This 14-minute video will provide you with:

- ✓ Key audit findings
- ✓ Key elements of the report
- ✓ How to submit the report
- ✓ Documentation required to be maintained for audit purposes
- ✓ Expected internal control structures supporting the FFATA reporting
- ✓ How that State Board of Accounts will audit the reports and supporting internal controls

If after viewing the video you have any questions or if you have follow-up questions due to a finding, please do not hesitate to contact us at stateagencyadvisory@sboa.in.gov.

If you have ideas for training topics, please email our State Agency Advisory Services team at stateagencyadvisory@sboa.in.gov.

UNDERSTANDING THE AUDIT REPORT SERIES – Part 1

Every profession has its own lingo, and auditors are no different. As you read the state's single audit report, you may see some unfamiliar terms. *For example, what exactly are compliance requirements? What is the difference between an unmodified opinion versus a qualified opinion? How do you distinguish between a material weakness and a significant deficiency? What is material?* Over the next few bulletins, we will be focusing on these and other aspects and terms in the audit report to provide an understanding of its meaning. In this article, we are discussing portions of the *Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance*, which is found on pages 4-10 of the State's Federal Compliance Audit Report for July 1, 2020 to June 30, 2021 (B59787): <https://www.in.gov/sboa/WebReports/B59787.pdf>

In this report, it says the following:

"We have audited the State of Indiana's (State) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021."

The compliance requirements are as follows:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Eligibility
- Equipment, Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Performance
- Procurement, Suspension and Debarment
- Program Income
- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions

The grant agreement will define which compliance requirements are applicable to your federal programs. However, the Federal OMB Compliance Supplement will define which compliance requirements have a direct and material effect on each major program and therefore will be audited. You can look up these compliance requirements in the Federal OMB Compliance Supplement at this link:

https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf

Please see this training video on how to use the Federal OMB Compliance Supplement:

Video Link: https://www.youtube.com/watch?v=tyi_qXoztCs

Slides pdf: <https://www.in.gov/sboa/files/Compliance-Supplement-Presentation-State-Agencies.pdf>

In the next bulletin article, we will discuss the significance of the audit opinion and the types of opinions issued.

INTERNAL CONTROL SERIES – Part 1

What are internal controls and why are they important? This is the first in a series of articles on establishing and maintaining a system of internal control to promote government accountability and transparency. Our goal is to provide you with information needed to achieve a system of internal controls that will foster service with responsibility, integrity, and efficiency.

Internal control is a process executed by officials and employees that is designed to provide reasonable assurance that the mission and objectives of the organization will be achieved in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The internal control process includes any policy, system, or action that corresponds directly to the objectives of the organization and adjusts to change when necessary. In government, missions and objectives change and evolve as a result of various factors such as new management, change in staff, rapid growth, technological advances, and new programs or services. As missions and objectives change, internal controls must be monitored and evaluated for applicability in the new context and adjusted accordingly. Ultimately it is the people at every level of the organization that are instrumental in ensuring the success of the internal control process.

There are many benefits of a well-defined, relevant internal control process.

- Internal control procedures produce accountability and transparency that is evident both internally and externally.
- Internal control procedures encourage efficient uses of government time and resources through the establishment of baselines and other measurable goals.
- Internal control procedures reduce costs by enabling timely completion of responsibilities as well as prevention of waste, abuse, or fraud.
- Internal control procedures reduce audit costs as documented processes exist to reasonably ensure that operational, reporting, and compliance objectives are achieved.
- Internal control procedures generate inherent savings and goodwill through proper stewardship of assets.

The internal control process is based on well-established and widely recognized fundamental principles that operate as an integrated whole but are best understood when analyzed individually. Each of the five components of internal control is necessary to form a complete internal control process:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework that includes principal characteristics of these five components and three categories of generalized objectives. The U.S. Government Accountability Office has adapted these components and principles for the Federal government through its Standards for Internal Control in the Federal Government, otherwise known as the "Green Book."

Chapter 2 of the Accounting and Uniform Compliance Guidelines Manual for State Agencies (State Accounting Manual) also discusses the importance of internal controls in the day-to-day operations of state agencies. In addition, each chapter of the State Accounting Manual contains basic internal control procedures for the handling of transactions described in that chapter. For example, the basic internal

control procedures for the handling of receipts are in section 4.3.2 of the State Accounting Manual.

In future State Agency Bulletin articles, we will look forward to sharing more in-depth information on each component of internal control.