Library Bookkeeping Workshop
November 2 and 7, 2017

District Meeting Attendees,

We are trying a different approach with the materials provided for our meetings/presentations. Instead of copies of the slides from the PowerPoint, we will be using the PowerPoint as a visual aid to the written material being distributed. The thought process is less reliance on viewing lengthy narratives and information on the screen and using PowerPoint to illustrate and emphasize key points.

The information you have been provided will look different than in prior training. The materials will follow along with what you will see on the screen in the meeting room, but will not be identical as in the past. The key points shown on the screen will be displayed and discussed in greater detail in the material following this letter. The titles for each section on the following pages will be the same as the titles you’ll see on the PowerPoint being shown in the meeting room for ease in following along.

We hope this provides information in a better way so less reliance is placed on what is showing on the screen and more reliance is given to the presentation material.

Todd Caldwell
Susan Gordon, CPA
Directors of Audit Services
WHAT TO EXPECT FROM AN AUDIT & HOW TO PREPARE

TODD CALDWELL
SUSAN GORDON
DIRECTORS OF AUDIT SERVICES
INDIANA STATE BOARD OF ACCOUNTS
REQUIRED AUDIT

General Requirement for an audit: Indiana Code 5-11-1-9(a):

“The state examiner, personally or through the deputy examiners, field examiners, or private examiners, shall examine all accounts and all financial affairs of every public office and officer, state office, state institution, and entity.”

Federal Grants also commonly require an annual financial audit. In reviewing your grant applications and/or grant agreements, you’ll often find requirements that the program be subjected to federal audit requirements.

Some libraries with debt might have requirements for a financial statement audit. Most financial institutions and bond rating agencies (like Standard & Poor, Moody’s, etc.) associated with a debt issuance will likely want to have audited financial statements and may have specific requirements for them. Most banks and rating agencies will accept our audit reports to satisfy their audited statement requirements.

TYPES OF ENGAGEMENTS

Federal Single Audit –

- This engagement is commonly what we are referring to when we use the term “audit”. A Single Audit is required by Federal law when expenditures of federal assistance exceed the threshold amount of $750,000. The threshold is calculated by adding all Federal Grant Reimbursements received during the period under review. For our audit purposes, we will start with the expenditures you report on the Annual Financial Report in the grants section, so it’s important that information reported here is accurate.

- An “audit” is conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

Examination –

- Required for libraries that do not meet the Federal Single Audit threshold and have outstanding debt. Examinations are conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

- Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the financial statements are in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the financial statements. The nature, timing, and extent of the procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Compliance -

- The requirement for a Compliance engagement is the unit does not have debt, has revenues that can be confirmed by outside sources, and has a limited amount of funds.

- The purpose of this type of engagement is to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts.

- The lack of debt and expenditures of Federal awards will play the most important role here. These reports do not contain financial statements, but refer readers to the Annual Financial Report filed and available in Gateway.
Centralized Compliance –

- Required for those units whose have no debt, are low risk, and are small enough to have their records transmitted to our Indianapolis office to be reviewed centrally (usually electronically). These would be extremely small units like township trustees, some small towns, and smaller libraries.

GOALS OF AN ENGAGEMENT

The goals of an engagement are to:

- Provide our opinion as to the material correctness of the financial statements as presented.
  - An “unmodified” opinion means no modifications have been made to our opinion – the financial information is materially correct.
  - A modified opinion lets the reader know there are reasons that need to be taken into consideration when relying on the financial statement information.

- Provide reader with noncompliance of any federal requirements.
  - Section II Findings are related to Financial Statement Compliance
  - Section III Findings are related to specific program compliance (major programs)
  - Results and Comments are related to statutory or uniform compliance guideline noncompliance

- Provide management with less significant noncompliance of state requirements through issuance of management letter.

ENTRANCE CONFERENCE

The Entrance Conference is the official beginning of the engagement. It’s our representation that we will be examining your financial activity for a stated period of time.

Those invited to the Entrance Conference:

- Those persons charged with governance: Board President, Treasurer, or any other member
- Management – Director, Bookkeeper

The Entrance Conference is the introduction to the Field Examiners who will be conducting the audit. The Field Examiners will discuss the audit objectives, the responsibilities of management, audit procedures, information/records that will be requested, and an approximate ending date.

The Entrance Conference also will establish and inform attendees of a method for open and continued communication throughout the audit process.

In addition to explaining the objectives of the engagement, the Field Examiners will also inform management of the audit fees and answer any questions regarding the audit process.
AUDIT PROCESS

Getting started involves SBOA identifying risks and planning and implementing testing procedures.

IDENTIFICATION OF RISKS

Risks Associated with Significant Audit Areas

- The Field Examiners will assess key (or significant) audit areas to determine if there are risks that financial statement information is misstated.

How Unit has Addressed Risks

- The Field Examiners will identify what internal controls or mitigating controls that the unit has put in place to ensure the financial statement information is materially correct.

How it Will Impact Audit Procedures Performed

- Field Examiners will determine what areas they can rely on in the internal control system and what areas will need to be reviewed in further detail.

TESTING

Audit testing will be conducted in three areas: Internal controls, Substantive, and Compliance

**Internal Controls:** Policies and Procedures that have been instituted will be tested to ensure that they are sufficient and are working as intended.

**Substantive:** Field Examiners will perform procedures to determine if financial statement information is materially correct.

**Compliance:** Field Examiners will perform procedures to determine compliance with state statute and uniform compliance guidelines.

ITEMS/RECORDS WE WILL BE NEEDING

- Financial Ledger
- Bank Statements and Reconciliations
- Claims / Receipts / Supporting Documentation
- Minutes of Meetings (include to current date)
- Resolutions
- Contracts
- Policies and Procedures – including Internal Controls
- Financial Reports – filed with State and/or Federal Government
- Grant Documents

  *Federal
  Grant Applications and Agreements are key*
SINGLE AUDIT OF FEDERAL PROGRAMS

If the engagement is an audit, we will audit your Federal grant expenditures and major federal programs. This process starts with the Schedule of Expenditures of Federal Awards (SEFA).

Your grant information is reported on your Annual Financial Report in Gateway. Your SEFA is compiled using the information you input, so the accuracy of your SEFA stats with the accuracy of the information you input.

From the federal awards reported on the SEFA, we do calculations to select “major programs”. Major programs are determined based on a dollar amount threshold and an assessment of risk by the Field Examiner.

Once a major program has been determined, it is audited for specific federal compliance requirements.

IDENTIFY SUBSEQUENT EVENTS

Things that occur after the financial statement date can have a material impact on the statements themselves. We will also take a look at things that happen after the audit period to determine if you should be disclosing them in a note to the financial statements.

The most common one is debt. Debt issued after the date of the financial statements can be significant information and if not properly disclosed could make the statements themselves misleading.

Other items we will look for are:

- Change in financial situation
- Lawsuits filed against your governmental unit
- Any other material situations

The Field Examiner will review records subsequent to the engagement period looking for these things, so they will most likely ask for minutes from meetings or may sit down and ask you specific questions.

Any material items noted by the Field Examiner will be discussed with you and a note to the financial statements will recommended.

CONCLUDING FIELDWORK

It’s at this stage we start to wrap things up. The Field Examiner at this point has sufficient audit evidence to render an opinion on your financial statements.

Opinions: As discussed earlier, one of the goals of the engagement is to provide our opinion as to the material correctness of the financial statements as presented.

- An “unmodified” opinion means no modifications have been made to our opinion – the financial information is materially correct.
- A modified opinion lets the reader know there are reasons that need to be taken into consideration when relying on the financial statement information.

The opinion will be in the financial statement report issued by SBOA – with your financial statements and other financial information.

Compile Comments/Findings: We will compile all significant and impactful Results and Comments of noncompliance, as well as any Federal Findings if an audit is being conducted.
If an audit or examination is being conducted, these comments will be in a separate report called a “supplemental report” – it supplements the financial statement report.

A compliance report will only have compliance issues in it. The reader is referred to Gateway for the Annual Financial Report for financial activity.

A centralized compliance report will have both financial and compliance issues in one document.

**Management Letter:** We will also compile any results and comments that were not significant or impactful to the unit in this letter. It is intended for management only and will not be published on our website.

### AUDIT CONCLUSION & EXIT CONFERENCE

To conclude the engagement, a series of reviews are performed of the Field Examiners work and then a final meeting with the officials, called an Exit Conference, is held.

**First Review:** A first field review is conducted by the Audit Manager. Each engagement is assigned an audit manager that oversees the fieldwork and the draft financial statement report (including any supplemental report with results and comments). The Audit Manager performs an initial review to determine if the report meets standards and the State Board of Accounts format.

After the first review is completed and all areas of concern addressed, an Exit Conference is scheduled.

**Exit Conference:** The Exit Conference is held in accordance with IC 5-11-5-1 and is the opportunity for the auditee to review the report(s) and comments/findings prior to the final report being filed by the State Examiner. Except as provided in IC 5-11-5-1(b), (d), and (e), it is unlawful for any person, before a report is made public, to make any disclosure of the result of any engagement.

**Those invited include:**
- The audited or examined official (fiscal officer)
- Those charged with governance
- Other pertinent members of management (director, bookkeeper, etc.)

**Items discussed include:**
- Contents of financial statement report, including the Single Audit report for federal grants (if an audit)
- Contents of supplemental report (significant issues of noncompliance and/or federal findings)
- Contents of management letter

**Options to respond:**
- Corrective action plan required for federal findings (included in financial statement report + supplemental report)
- Option to respond in writing (Official Response) to Results and Comments (Official Response is included in report)

**IC 5-11-5-1:**

(b) Before an examination report is signed, verified, and filed as required by subsection (a), the officer or the chief executive officer of the state office, municipality, or entity examined must have an opportunity to review the report and to file with the state examiner a written response to that report. If a written response is filed, it becomes a part of the examination report that is signed, verified, and filed as required by subsection (a). As part of the review of the examination report, the state examiner shall hold a gathering of the officer or chief executive officer of the state office, municipality, or entity examined, any employees or agents of the state office, municipality, or entity examined who are requested to attend by the officer or chief executive officer of the state office, municipality, or entity examined, and the members of the legislative and fiscal bodies of the municipality or entity examined. Such a gathering is referred to as an "exit conference" for purposes of this subsection. The following apply to an exit conference:

(1) All information discussed and materials presented or delivered by any person during an exit conference are confidential and may not be discussed or shared publicly until the earliest of the
occurrences set forth in subsection (g). However, the information discussed and materials presented or delivered during an exit conference may be shared with an officer, employee, consultant, adviser, or attorney of the officer or chief executive officer of the state office, municipality, or entity examined who was not present at the exit conference. An individual with whom information and materials are shared must maintain the confidentiality of the information and materials as provided in this subdivision until the earliest of the occurrences set forth in subsection (g). [Emphasis added]

(2) An individual attending an exit conference may not electronically record the exit conference.

(3) If a majority of a governing body (as defined in IC 5-14-1.5-2(b)) is present during an exit conference, the governing body shall be considered in an executive session under IC 5-14-1.5. However, the governing body has no obligation to give notice as prescribed by IC 5-14-1.5-5 when it participates in the exit conference.

(4) If the state examiner determines after the exit conference that additional actions must be undertaken by a deputy examiner, field examiner, or private examiner with respect to information discussed or materials presented at the exit conference, the state examiner may call for an additional exit conference to be held.

(5) Not more than thirty (30) days after the initial exit conference is held under this subsection, the legislative body of the municipality or entity examined and reported upon may adopt a resolution, approved by at least a two-thirds (2/3) vote of the legislative body, requesting that an additional exit conference be held. The legislative body shall notify the state board of accounts if the legislative body adopts a resolution under this subdivision. If a legislative body adopts a resolution under this subdivision, the state board of accounts shall conduct an additional exit conference not more than sixty (60) days after the state board of accounts receives notice of the adoption of the resolution. The municipality or entity examined must pay the travel and staff costs incurred by the state board of accounts in conducting an additional exit conference under this subdivision.

(6) Except as provided in subdivision (7), a final report under subsection (a) may not be issued earlier than forty-five (45) days after the initial exit conference is held under this subsection.

(7) If:

(A) the state examiner does not call for an additional exit conference to be held as described in subdivision (4); and

(B) the:

(i) legislative body of the municipality or entity examined and reported upon provides written notice to the state examiner that the legislative body waives an additional exit conference described in subdivision (5); or

(ii) state examiner determines that a final report under subsection (a) must be issued as soon as possible;

the final report may be issued earlier than forty-five (45) days after the initial exit conference is held under this subsection.

(c) Except as provided by subsections (b), (d), and (e), it is unlawful for any person, before an examination report is made public as provided by this section, to make any disclosure of the result of any examination of any public account, except:

(1) to the state examiner;

(2) if directed to give publicity to the examination report by the state examiner or by any court;

(3) to another deputy examiner, field examiner, or private examiner engaged in conducting the examination; or

(4) if directed by the state examiner, to the chair of the audit committee or the members of the audit committee acting in executive session, or both. [Emphasis added]

Second Review: After the Exit Conference, a second review is performed by an Audit Coordinator, who oversees and supervises the Audit Managers and Field Examiners. They review any changes made to the Report as a result of information obtained after field work is completed and forward to SBOA office for processing.

Office Review: The financial statement and Single Audit reports are reviewed in our office by our Risk Management division. Any supplemental reports are reviewed by an Office Director who specializes in that type of governmental unit.
AUDIT & RELATED REPORTS ISSUED

Once the audit has been completed, the Exit Conference held, and the Report(s) reviewed, the Report(s) is filed by the State Examiner. Once filed, copies are mailed and/or emailed to the Officials examined, the President of the governing bodies, and any other official requesting copies.

In addition, the financial statement, supplemental, compliance, or centralized compliance reports are filed on our website at the following address: https://secure.in.gov/apps/sboa/audit-reports/#/

Or you can go to our home page [www.in.gov/sboa] and click the “billboard” for audit reports:
CONTACT INFORMATION

Indiana State Board of Accounts
302 W. Washington Street. Room E418
Indianapolis, IN  46206

317-232-2513
www.in.gov/sboa

Todd Caldwell          Susan Gordon
Directors of Audit Services

libraries@sboa.in.gov