Surviving an Audit – Start to Finish

Fall District Meeting
August 2021

State Board of Accounts Contact Information

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Director of Audit Services

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Director of Audit Services

cities.towns@sboa.in.gov

317-232-2513
- Engagements
- Time for an Audit
- The Audit Process

**Indiana Code 5-11-1-9**
Requires the State Examiner to examine all accounts and all financial affairs of every public entity.

**Federal Grant Agreements**
Federal grant agreements commonly call for an annual audit.

**Debt Covenants & Bond Rating Agencies**
Most financial institutions and bond rating agencies accept the SBOA audit report for their purposes.
Engagement Goals

Provide Opinions on Financial Information Presented by Auditee
➢ Unmodified, or “clean” opinion, lets readers know the information is materially correct.
➢ Modified opinion lets readers know there are issues that need to be taken into consideration when it comes to the information presented.

Provide Reader with Noncompliance of Federal Requirements for Major Programs and State Requirements
➢ Federal: Section II (Financial Statement Compliance); Section III (Major Program Compliance)
➢ State: Audit Results and Comments (significant or impactful to the unit and/or public)

Provide Management with less Significant Noncompliance of State Requirements
Audit Reports

- Audit Report
  - possible Supplemental Audit Report
- Review Report
- Compliance Report
- Management Letter
Pre-Audit Forms

As the management designee, I have reviewed the financial statement and notes to the financial statement for each of the aforementioned years. These items were prepared by use of our books and records. Our books and records adequately support the financial statement and notes to the financial statement prepared, and accordingly, I approve these items as compiled by the State Board of Accounts. I understand that slight modifications such as spelling, grammatical and formatting errors may be corrected during the processing of our report by the State Board of Accounts. I acknowledge that the financial statement, including the notes to the financial statement, are our responsibility. I have determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation.

<table>
<thead>
<tr>
<th>Name of Designee</th>
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<td>Title</td>
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Who is invited?

- Those charged with governance – Council President
- Management – Fiscal Officer: Clerk-Treasurer or Controller
What is discussed?

- Introduction to the Field Examiners that will be working on the audit
- General overview of:
  - Audit Objectives
  - Management Responsibilities
  - Audit Procedures (general, internal control, compliance)
  - Informing Management of general records that will be requested
  - Start date & expected issuance date

Continuing Expectations

- Provide and inform attendees with a method to allow for continued communication throughout the audit process

Field Examiners will:

- Explain the objectives of the engagement
- Explain what responsibilities management has
- Inform management of audit fees
- Answer any questions regarding the audit process
Entrance Conference Form 14

- Will be emailed to you
- Signed copy required
- You can print, sign, and return to FE
The Audit Process

- Preliminary Work
- Entrance Conference
- Virtual/Remote Audit
- Auditing Procedures
- Exit Conference
- Reports

How does a virtual / remote audit work?

- Email, Telephone, Video Conferences
- Forms Prior to Audit
- On-site Procedures
- Gateway Direct Request email
- Monthly & Annual Uploads
Communication

Weekly Contact
- Teams Video Calls
- Telephone Calls
- Emails

Items to be discussed
- Records or Information needed
- Questions related to audit work
- Progress of the audit
  - Schedule
- Any concerns you may have

Gateway Direct Requests for Uploads

Direct Requests

How do I know a request has been made?
Email from no-reply.gateway@sboa.in.gov
Request for specific file or item with detailed description
Instructions on how to upload
  - through Monthly and Annual Engagement Uploads

What do I do?
Acknowledge request
Provide time-frame
Email field examiner when item has been uploaded
### Monthly and Annual Engagement Uploads

Use the form below to find and upload documents required for audit support. Note: This information is for the State Board of Accounts internal use only and will not be made available on the Gateway Public site.

**File Upload Status:** The current upload status is viewable in the table below. Any objects with a red X need to be uploaded. To view a previous upload on the download icon in the table. To delete a previous upload, click on the delete icon for that record in the status table.

**To upload new files:** Select which set of files need to be uploaded using the Select Upload Group dropdown. Next, select the specific file from the Select File Type dropdown on the right. The user will be able to upload files using the Browse and Upload buttons in the Provide File section. In some cases, an option will appear in the Provide File section allowing a user to provide a link instead of uploading a file. To do this, select the Web Link option and paste the link in the text box labeled Provide Link.

**To complete the entry:** Click on the button marked Submit. The status table will be updated. Multiple files may be uploaded for each Upload Group and File Type. If a file needs to be reloaded, the user should delete that file from the status table first.

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<tr>
<td>DIRECT REQUEST</td>
<td>Audit Request</td>
<td>Please upload the requested audit files.</td>
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<tr>
<th>Upload file (xls, xlsx, doc, docx, jpg, pdf, gif, tif, png)</th>
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<th>Upload Date</th>
<th>Uploaded By</th>
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### Direct Requests

Scroll down passed monthly and annual uploads to see -

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Documents Requested

- Written policies and procedures
- Internal Control Training Certifications
- Board Minutes (include to current date)
- Ordinances and Resolutions
- Contracts
- Financial Records (ledger)
- Bank Reconcilements and Bank Statements
- Debt documents
- Capital Assets Ledger
- Receipts
- Accounts Payable Vouchers
- Payroll records
- Financial Reports filed with other agencies

How Do I Prepare?

- File AFR, 100R, Monthly and Annual Uploads on time.
- Document Internal Control Procedures and Evidence of Procedures.
- Maintain a file of all policies (travel, benefits, credit cards, etc.)
- Reconcile bank accounts monthly.
- Post records timely (ledger, capital assets, debt, investments, etc).
- File supporting documentation for expenses in an orderly fashion.
- Issue receipts and deposit money on a timely basis.
- Keep explanations for unusual items (attorney opinions, etc.)
- Keep a list of questions or items you want to tell the field examiner.
- Call Todd and Susan!
Are there special requirements for CARES or ARPA?

CARES - State Examiner Directive 2020-3 & other memos

ARPA - State Examiner Directive 2021-2 and accompanying memos

Grant Documents

Internal Controls

Explanations of Expenses (for ARPA see Section 603, Interim Final Rule, US Treasury FAQs)

Uniform Guidance if amount expended exceeds $750,000 in a year

The Audit Process

✓ Preliminary Work
✓ Entrance Conference
✓ Virtual/Remote Audit
☐ Auditing Procedures
☐ Exit Conference
☐ Reports
What is SBOA looking for?

Understanding of Internal Controls

Prior Period Follow Up
- Audit Results and Comments
- Management Letter Comments
- Verbal Comments
- Significant or Unusual subsequent events

Financial Statement Information

Receipts

Disbursements

Compliance

Examples of Compliance Procedures

- Internal Controls (procedures and evidence of procedures)
- Comparisons of AFR to Ledger
- Timely Deposit of Receipts
- Disbursements not exceeding appropriations
- Monthly bank reconciliements
- Compensation in accordance with Salary Ordinance
- Payroll remittance to IDOR + IRS
- Fund Sources and Uses
- Capital Assets
- Supporting Documentation
- MVH Restricted
- Prior comments resolved
Other Responsibilities During the Audit

Request Attorney Representation Letter

Sign Management
Representation Letter

Audit Findings Communicated

Audit Result and Comment (ARC)

Management Letters

Verbal Comments

Federal findings
ADAPTATION OF AND TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

As of December 31, 2019, the Town Council had not adopted internal control standards and procedures as required by state statute. In addition, there was no training of Town personnel concerning internal control standards and procedures during the review period.

Criteria

Indiana Code 5-11-1-27(g) states: "After June 30, 2016, the legislative body of a political subdivision shall ensure that: (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

Repeated Comments

- HB 1031 (2017) – repeat comments have consequences.
  
  Make sure to get an idea on how to fix problems before the field examiner leaves.

  If you still need help after the Exit Conference, call Todd and Susan.

- File Corrective Action Plan using SBOA Template

- Implement fixes immediately
The Audit Process

✓ Preliminary Work
✓ Entrance Conference
✓ Virtual/Remote Audit
✓ Auditing Procedures
❑ Exit Conference
❑ Reports

Exit Conference

Draft report

Opportunity to respond to comments (Form 4) – 10 days
  • electronic responses shall be sent to officialresponse@sboa.in.gov

Corrective Action Plan discussed if repeat comments in report

Official’s term, email and physical addresses verified

Results of Audit are Confidential until report is filed
Exit Conference

Indiana State Board of Accounts - 2021

Exit Conference

Statement of Engagement Cost
for city and town engagements other than utility departments

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 out of your next distribution.
Statement of Engagement Costs and Invoice for city and town engagements with utility departments

• 1. Number of days spent on the audit.
• 2. Daily/hourly rate.
• 3. Report processing fees.

The invoice for the utility audit costs should be paid to the State Board of Accounts within 30 days.

The Audit Process

✓ Preliminary Work
✓ Entrance Conference
✓ Virtual/Remote Audit
✓ Auditing Procedures
✓ Exit Conference

❖ Reports
Federal Audits

- Schedule of Expenditures of Federal Awards (SEFA)
- Selection of Major Programs
- Audit of Major Programs

Financial Statement Report
CAPITAL ASSETS

Condition and Context

The Town did not provide a formal capital asset policy, a detailed listing of capital assets, or evidence that a capital asset inventory had been completed at least every two years.

Capital asset cumulative grand totals are captured within the Town’s accounting software and a listing of 2019 capital asset additions and deletions was provided; however, a detailed listing was not accessible. The Town provided a purchasing and procurement policy; however, the policy did not establish a specific dollar value threshold for capitalizing assets.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form-369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)
Compliance Report

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

COMPLIANCE REPORT
OF KEYSER TOWNSHIP
DOUGLAS COUNTY, INDIANA
January 1, 2018 to December 31, 2018

FILED

STATE OF INDIANA
AQUILA OPPORTUNITY EMPLOYER

MANAGEMENT LETTER COMMUNICATING NONCOMPLIANCE
TO: THE OFFICIALS OF THE CITY OF GORDONVILLE, JOYCE COUNTY, INDIANA.

The Indiana State Board of Accounts is providing the letter to communicate certain matters noted during our audit related to noncompliance with applicable laws and/or internal compliance guidelines established by the Indiana State Board of Accounts. Our audit covered the period January 1, 2018 to December 31, 2018.

The matters noted below describe identified instances of noncompliance found during our audit that did not occur during the period of audit noted. These instances are being communicated for your information. Please be advised that we will review the status of these items during our next audit. Continued noncompliance noted in the matters noted may be reported in your next audit report.

ACCOUNTS PAYABLE VOUCHERS

Condition and Context
One Accounts Payable Voucher totaling $5,95 did not have supporting documentation available for audit.

Criteria
Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other pertinent records must be available for examination to provide supporting information for the validity and accuracy of money disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee.

This communication is intended solely for the information and use of management, governance, and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

Respectfully,
Freddie Field Examiner

September 30, 2020
Common Audit Findings

Bank Reconciliations

No Bank Reconciliation

Bank Reconciliation performed but...
  • Did not balance
  • Savings and investment balances not reflected
  • Reconciling items not identified
  • Individual bank reconciliations did not agree to combined bank reconciliation
  • No segregation of duties or review / approval process
  • No monitoring to ensure reconciliation was done accurately and timely
Capital Assets

No capitalization policy
No capital assets ledger
No physical inventory taken
Capital Asset Ledger was present but...
  • not updated for additions and reductions
  • assets recorded replacement or other value rather than acquisition value
  • did not agree with capital assets schedule in AFR

Condition of Records – AFR and Ledger

Posting errors / activity was not posted to the records

AFR did not agree with records

All funds not reflected on town’s records (e.g. SRF)

Individual funds ledger not reconciled to the control ledger
Internal Controls over Financial Transactions and Reporting

Cash and Investments

Receipts

Disbursements – Vendor & Payroll

Annual Financial Report

Other

Appropriations

Overdrawn Cash Balance

MVH allocation of 50% to restricted Sub-fund 203

Monthly and Annual Engagement Uploads

Adoption or Training on Internal Control Standards
Contact Info

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