

Is Your Agency Audit-Ready?

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What We'll Cover

- **How to prepare for an audit**
- **What your internal audits should look like**
- **What you should expect from an external audit**
- **Your governing board's responsibility for the audit**

How to Prepare for an Audit



Start Now

**All fiscal year 6/30 year end agencies
spending \$750,000 or >
in federal funds must follow Uniform
Grant Guidance (UGG) in this FY**

Changes under UGG

- Focus on performance and internal controls over compliance for accountability
- Expectation of stronger oversight
- Effective resolution of weaknesses

Preparation is everything

- **Under UGG, agencies are required to know their funding sources & requirements**
- **Create your grant listing and keep it current**
- **Who is in charge of this?**

Grant Listing (cont'd)

Grant listing *must* include:

- **CFDA number and title**
- **Federal awards ID and year**
- **Name of federal awarding agency**
- **Pass-through entity's name**

Grant Listing (cont'd)

Copies of contract face sheets

- **CDE face sheets clearly break out the funding sources & amounts for each grant**
- **For audits performed under UGG, this info is critical in determining major programs**

Grant Listing (cont'd)

- These are needed early in the planning process



Preparation is everything

How does this help you?

- **The Compliance Supplement provides compliance requirements to auditors by federal funding source**
- **The Child Dev Block Grant, TANF and the CACFP are included**

Preparation is Everything (cont'd)

- Know where to find the Compliance Supplement:

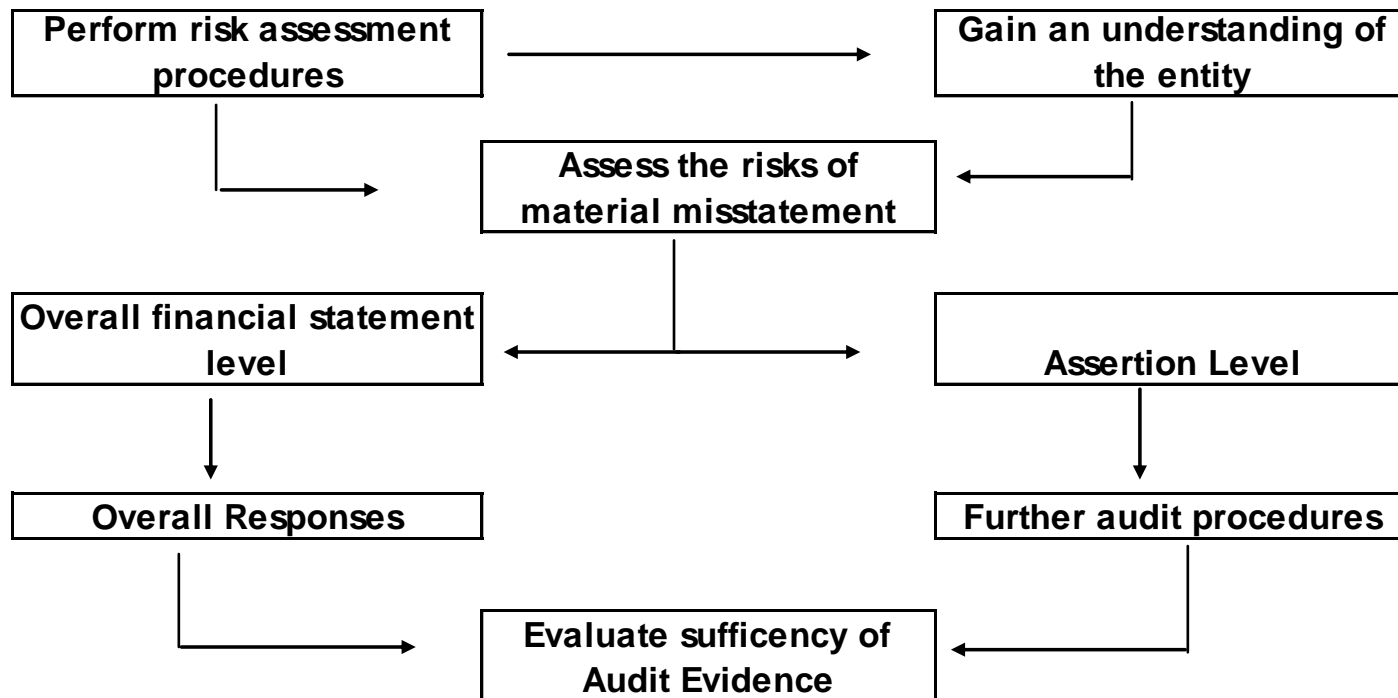


http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2015

Planning

**In the planning stage of
an audit, we are required
to assess
risk.**

Risk Assessment



Compliance Requirements

Audits need to cover:

- 1. Activities allowed/unallowable**
- 2. Allowable costs/cost principles**
- 3. Cash management**
- 4. Eligibility**
- 5. Equipment management**
- 6. Matching, level of effort**

Compliance Requirements (cont'd)

- 7. Period of performance**
- 8. Procurement**
- 9. Program income**
- 10. Reporting**
- 11. Subrecipient monitoring**
- 12. Special tests**

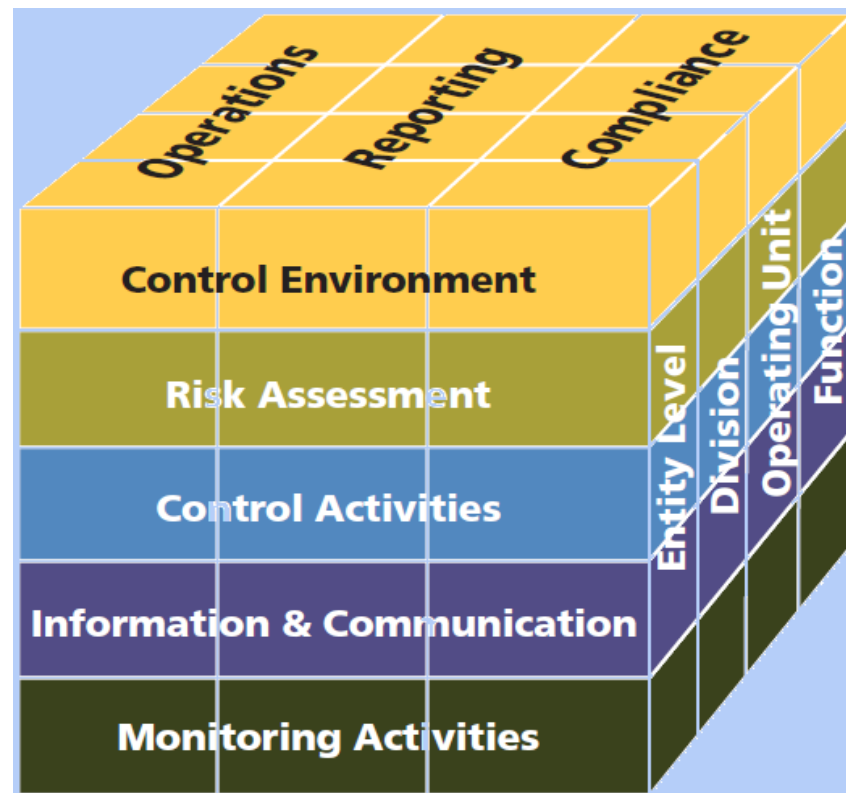
Understanding

At this stage, auditors need to understand:

- **Your industry, regulatory & other factors**
- **Nature of your entity**
- **Objectives & strategies**
- **Measurement & review of financial performance**
- **Internal Controls designed to reduce risk**

Understanding (cont'd)

- Auditors are required to document their understanding of your internal controls over grant programs using this framework:



Components of Internal Control

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

Control Environment

Starts at the top:

- **Your board or council should be playing an important role**
- **Make it easy for an outsider to verify oversight and fiscal accountability (proof of good governance)**

How do you document governance?

- **Record all board/council minutes contemporaneously**
- **Organize the board packets you keep on file**

How do you document governance?

- **Keep copies of email updates to the governance body.**
- **Make it *easy* for an auditor to see that your board is informed and involved.**

Components of Internal Control

1. **Control Environment**
2. **Risk Assessment**
3. **Control Activities**
4. **Information and Communication**
5. **Monitoring**

Who's guarding the fort?

- If you've had cut back on staff in the past few years, remaining employees probably have additional duties.



- Auditors will ask what you've done to ensure that key controls are still in place.
- Don't let auditors be the ones to tell you that your bank accounts are no longer getting reconciled timely.

Who's guarding the fort? (cont'd)

- **Talk to your supervisors and staff about these issues.**
- **Have the risks changed?**
- **If so, do your current procedures address the new risks?**

Components of Internal Control

1. **Control Environment**
2. **Risk Assessment**
3. **Control Activities**
4. **Information and Communication**
5. **Monitoring**

Control Activities

- **Have you documented changes in your procedures?**
- **If you've made changes in your structure, reflect the changes in your policy manuals.**

Components of Internal Control

1. **Control Environment**
2. **Risk Assessment**
3. **Control Activities**
4. **Information and Communication**
5. **Monitoring**

Information & Communication

The rules have changed at a breakneck pace



Information & Communication

- **How are you sharing the MBs and other changes with staff?**
- **If you're using the agency's Intranet to make changes accessible, note that in your manuals.**

Components of Internal Control

1. **Control Environment**
2. **Risk Assessment**
3. **Control Activities**
4. **Information and Communication**
5. **Monitoring**

Monitoring

Monitoring activities:

- **Staff Meetings**
- **Training Seminars**
- **Planning Sessions**
- **Internal Audits**
- **Annual Audit**

Monitoring

- **What is the process used to ensure annual recertifications are performed correctly and consistently?**
Your response describes the monitoring component at your agency.

Monitoring

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Your response describes the monitoring component at your agency.



Auditors cannot be part of the auditee's internal controls!

Top 10 Ways to be Ready for Your Audit

- 1. Know your federal funding sources – identify all sub-recipients/federal Pass-throughs and let your auditor know this early in the planning process.**

Top 10 Ways to be Ready for Your Audit (continued)

2. Documentation of Personnel Expenses:

- **Make sure charges to govt awards for wages are based on records that accurately reflect the work performed**

Top 10 Ways to be Ready for Your Audit (continued)

3. Timely Accurate Financial and Performance Reports:

- Late reports often indicate weaknesses in grant management systems
- Late reports are ‘red flags’ that may invite scrutiny



Top 10 Ways to be Ready for Your Audit (continued)

4. Cost Transfers:

- **Shifts of costs between programs look suspicious**
- **Those occurring close to the end of a project or fiscal year are particularly suspect**

Top 10 Ways to be Ready for Your Audit (continued)

5. Applicable Credits:

- **Don't forget to subtract credits from your grant charges before submitting to the awarding agencies**
- **Purchase discounts**
- **Rebates & refunds**

Top 10 Ways to be Ready for Your Audit (continued)

6. Cash Management:

- Minimize the time elapsing between receiving cash/checks and depositing them
- Credit any interest earned back to the federal government



Top 10 Ways to be Ready for Your Audit (continued)

7. Property Records:

- **Make sure your property records include all of the required data elements outlined in UGG**

Top 10 Ways to be Ready for Your Audit (continued)

8. Equipment Inventory:

- **Take inventory of all equipment that has been acquired with Federal funds (at least once every two years) and annually for CDE funded equipment**
- **Reconcile the inventory count to your property records & your G/L**

Top 10 Ways to be Ready for Your Audit (continued)

9. Non-competitive Procurement:

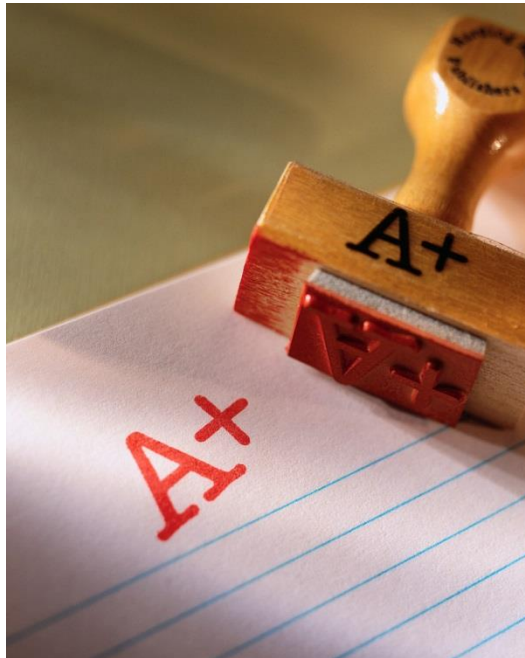
- **If you award any contracts for goods or services on a sole source basis, prepare a written justification as to why you proceeded with the transaction**
- **Example: emergency, no responses to solicitation, etc.**

Top 10 Ways to be Ready for Your Audit (continued)

10. Valuation of Third Party In-kind Contributions:

- **Carefully and reasonably estimate the fair market value of services, supplies, equipment, and facilities that you receive from third parties and employ in a grant as part of your matching or cost sharing**

What Should Your Internal Audits Look Like?



Internal Audits

Internal audits should involve both program and fiscal supervisors.

Discuss:

- **Your greatest areas of risk (“what could go wrong?”)**
- **Control activities designed to minimize these risks (“what are we doing to prevent this from happening?”)**

Internal Audits (cont'd)

Determine how often supervisors can sample these activities.

- **Ongoing assessments**
- **How are discrepancies handled?
Minimized?**

Internal Audits (cont'd)

Focus on:

- **Areas that have been a problem in past audits**
- **Processes that have recently changed (new MBs or accounting changes?)**
- **New staff, staff in new positions**

Internal Audits (cont'd)

Program areas:

- **Certs/recerts by new staff**
- **Payments – small samples, regularly**
- **Family/provider files – sample for completeness**

Internal Audits (cont'd)

Fiscal areas:

- **Tie-in supporting schedules to G/L:**
 - **A/R Aging**
 - **A/P Aging**
 - **Fixed asset schedule**
- **Bank reconciliations, journal entries**
 - **Rev'd by someone other than preparer**

Internal Audits (cont'd)

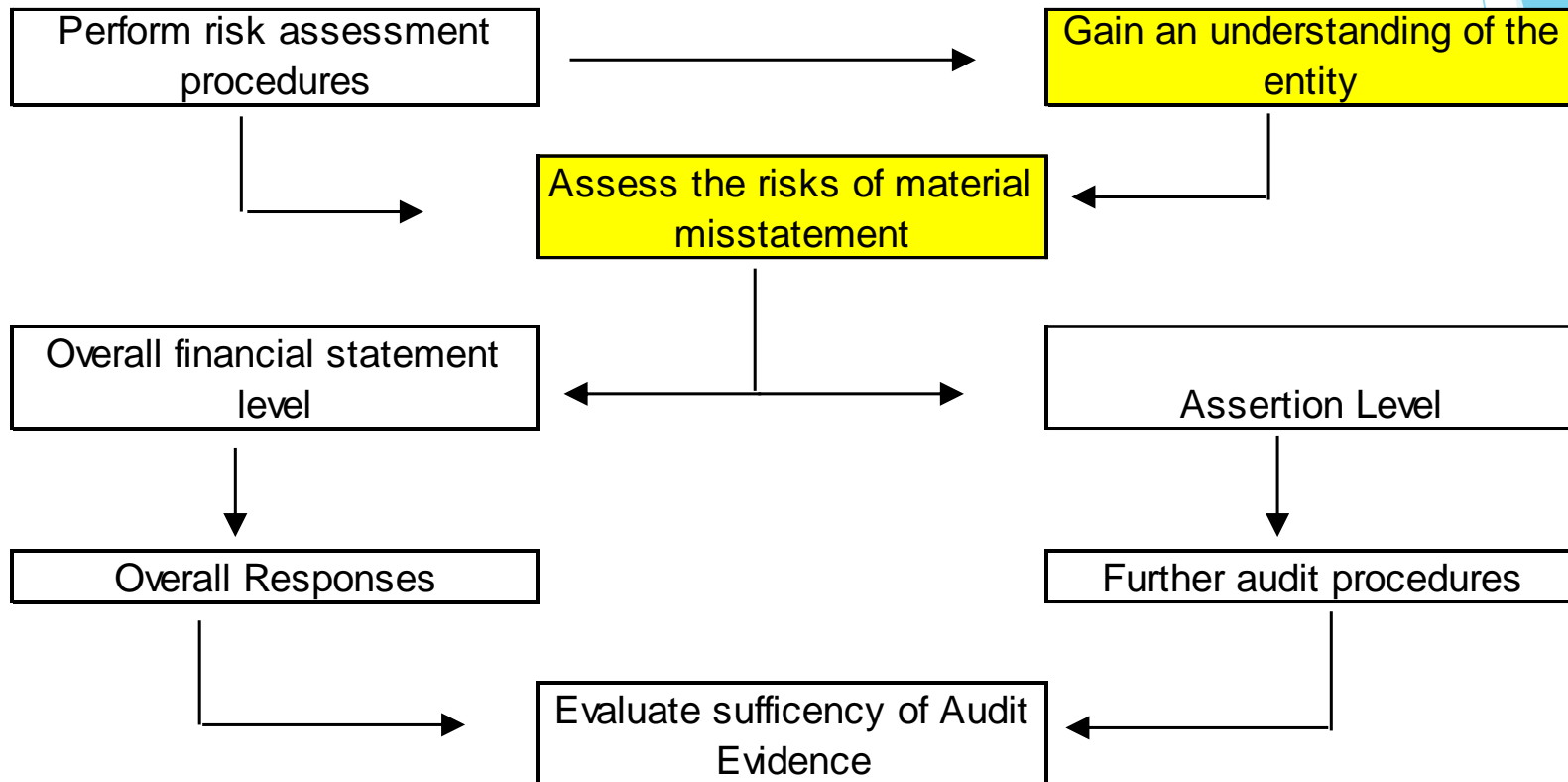
Highly important:

- **Leave evidence of your reviews (initials, etc.)**
- **Describe your reviews in your internal control documentation**

What to Expect in This Year's Audit



Risk Assessment



What Will an Auditor Evaluate?

- **Internal control policies & implementation**
- **Ongoing monitoring (documentation)**
- **Scope & frequency of evaluations**
- **Actions taken on deficiencies**



Analyzing Internal Control

- **UGG requires us to plan our audit to obtain a “low” control risk**
- **That is, controls that “operate effectively”**
- **Controls that are reliable**

Analyzing Internal Control (cont'd)

- **How do we get to “low” control risk?**
 - **Document our understanding**
 - **Test control design and implementation**
 - **Test control effectiveness**

Internal Control Testing

- **Test of design and implementation**
 - **Walkthrough of our understanding**
 - **Conclusion: Control has been properly designed and implemented**
- **Test of effectiveness**
 - **Select a sample and test control attributes**
 - **Conclusion: Control is effective**
- **Control must be effective or you should have a finding**

Compliance Testing

- **If controls are effective, sample sizes are similar if not the same for compliance testing**
- **If controls are not effective, sample sizes need to be significantly increased to determine compliance**

The Scary Part

- **Testing internal controls and compliance require sampling**
 - ***Not too unnerving* – auditors do not test every transaction**
 - ***This could be bad* – the transactions tested have significant meaning**
 - ***This could be SCARY* – errors equal findings or more testing which translates in more time and more money**

How Do We Select Our Sample Size?

It Depends on the Auditor's Judgment ☺

- Can use statistical sampling
- Can use industry-supported standards (approaches based on the statistical theory of attribute sampling)



Determination of Sample Size (90% confidence level)



	Sample Size		
	25	40	60
# of Deviations	Control Risk Assessment		
0	Moderate	Low	Low
1	High	Moderate	Low
2	High	High	Moderate
3	High	High	Moderate

How Do We Select Samples?

**Acceptable Selection
Methods:**

- **Systematic**
- **Random**
- **Haphazard**



Audits

Popular Control Tests for an APP



Cash Receipts Policies & Procedures



- Prompt deposit of receipts
- Accurate recording of cash receipt amount
- Accurate posting of cash receipts
- Proper backup documentation for cash receipts

Cash Disbursements Policies & Procedures

- **A/P voucher is coded, authorized and cancelled**
- **Expense is charged to the correct period and account**
- **Bid process followed when required**
- **Travel reimbursement paid at correct rate, correctly expensed**
- **Expense is allowable**

Payroll

Policies & Procedures

- **Employee paid at authorized rate**
- **Timesheets are approved including hours of all types**
- **Drug/alcohol free workplace documentation**
- **Salary expense is properly allocated**
- **Taxes withheld agree with W-4**

Payroll

Policies & Procedures

- **Watch your payroll allocations, particularly in grants that are ever-changing!**



Alternative Payment Policies & Procedures

- Review 9600s and 9600As (*NOAs, NOAs, & more NOAs!*)
- Fees at or below CAP
- Attendance form is cancelled
- Proper grant charged for provider payment

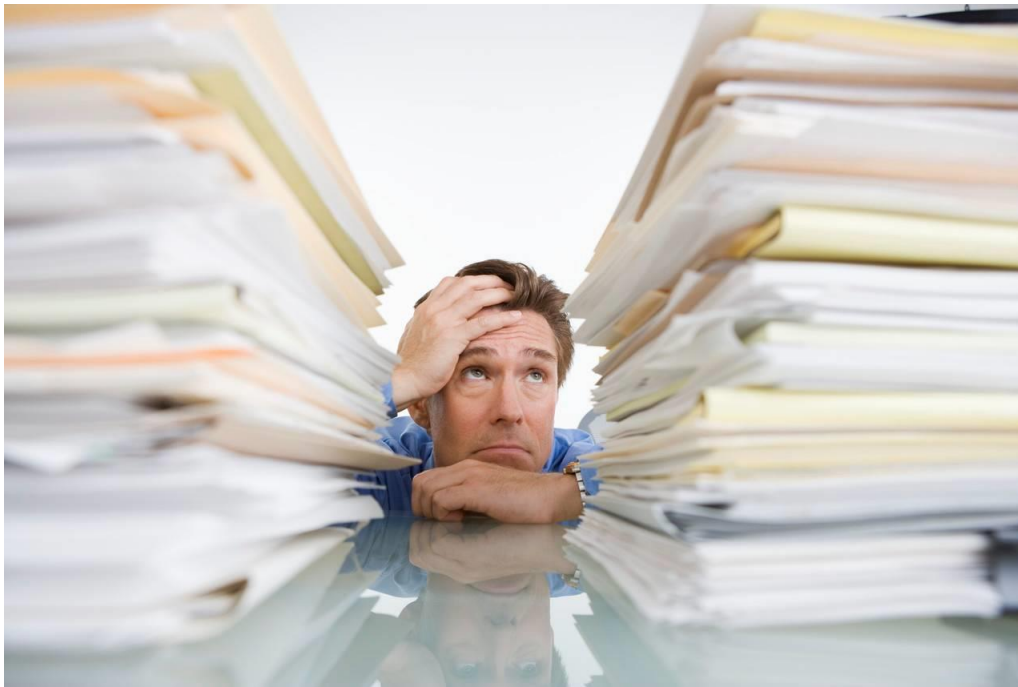
Alternative Payment Policies & Procedures (cont'd)

- **Parent fee calculation**
- **Provider payments are accurate**
- **File includes required documents**
- **Hours of care agree to contract**

Review of Deviations

- **How integral is the control procedure to the control objective?**
- **Are other controls in place that mitigate the control risk?**

Has anything *else* changed?

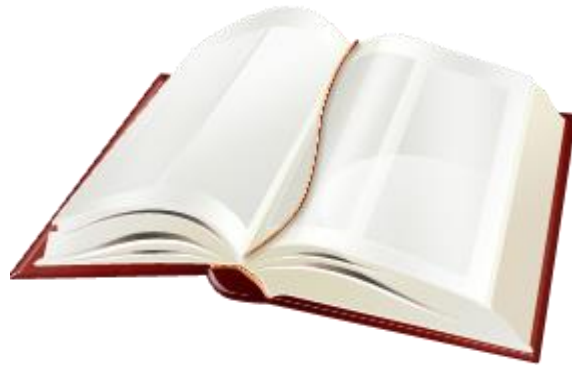


Has anything *else* changed?

- **Yes. FT&Cs for FY '16 now reference UGG**
- **CDE's Audits & Investigations Division is currently updating their Audit Guide**
- **Where can you see the audit guide?**

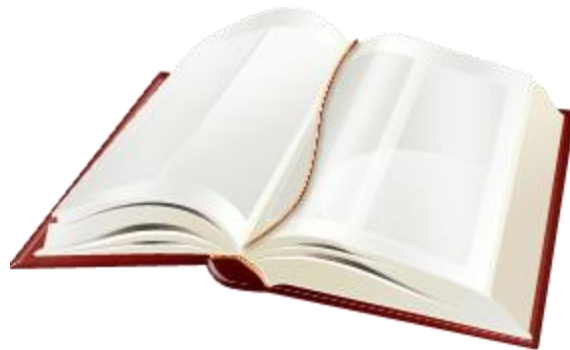
CDE Audit Guide

**[http://www.cde.ca.gov/fg/au/pm/
documents/auditmanual2010.pdf](http://www.cde.ca.gov/fg/au/pm/documents/auditmanual2010.pdf)**



CDE Audit Guide

- Issued June 2010
- Since the *auditee* is the entity responsible for compliance, it's essential that management be familiar with the requirements.



CDE Audit Guide

Requirements:

- **\$ limit requiring an audit**
- **Audit due dates**
- **How to get an extension on your audit submission date**

CDE Audit Guide

Requirements (continued):

- **Statements & Supplementary Schedules!**
- **Reconciliation schedule**
 - **Reconciling the statements prepared under GAAP with reports filed on CDE forms**

CDE Audit Objectives

➤ Audit Guide Chapter 130

- A.** F/S presented in conformity w/ GAAP
- B.** Agency establishes & maintains effective internal controls to discharge management responsibilities & adequately safeguard state & federal interests

CDE Audit Objectives

- **Audit Guide Chapter 130 (cont'd)**
 - C.** State & federal funds are being expended in accordance w/ ... regulations that could *materially* affect the financial statements or programs tested.

CDE Audit Objectives

➤ Audit Guide Chapter 130 (cont'd)

D. The direct and indirect costs incurred & claimed for reimbursement ... are reasonable, allowable, & allocable to the programs according to the benefits rec'd.

CDE Audit Objectives

➤ Audit Guide Chapter 130 (cont'd)

E. The supplemental information req'd by the audit guide is fairly stated ...in relation to the combined F/S taken as a whole.

Note: your auditor needs to opine on the supplementary information

If you're a CACFP sponsor...

...and if your audit is performed under OMB A-133/UGG, you may apply for audit cost reimbursement.



CACFP Audit Reimbursement

- **Must have a Single Audit including:**
 - **Summary of Claim**
 - **Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement**
 - **Schedule of Reported, Adjusted, and Allowed Eligibility**

CACFP Audit

Reimbursement (cont'd)

- **Schedule of Reported, Adjusted, and Allowed Meals**
- **Schedules must be covered by your auditor**
- **Submit paid audit invoice to CDE with auditor's allocation of CACFP portion**

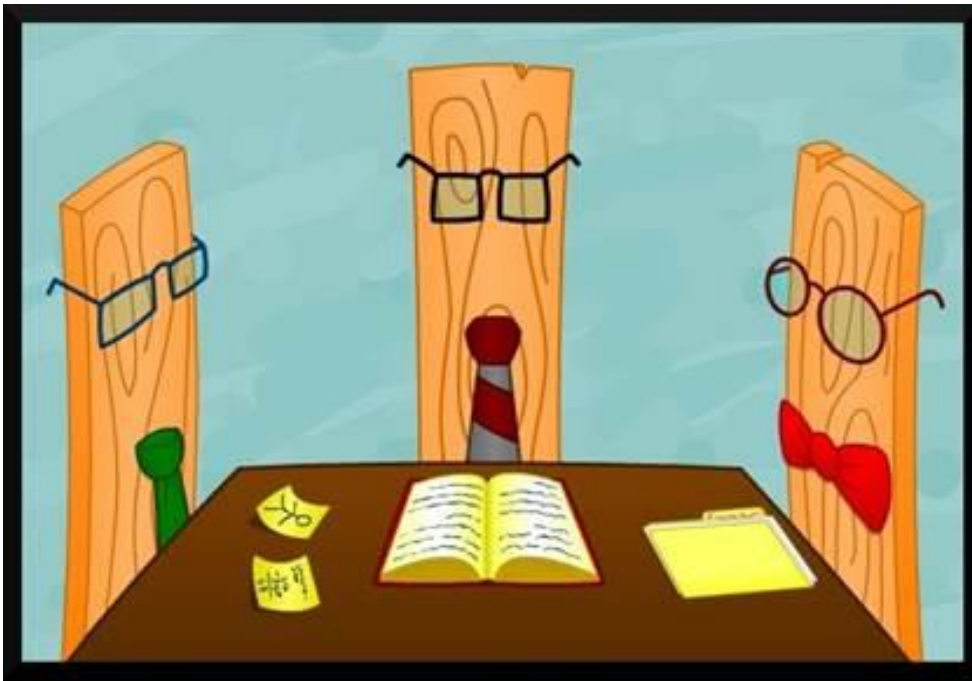
Audit Quality

- 1. Make sure your audit firm has quality, knowledgeable staff with the right skills for an audit performed under Uniform Grant Guidance (or Yellow Book, for smaller agencies)**
- 2. Request (and read) a copy of the firm's System Review Report**
- 3. Grant your auditor access to all the necessary financial and program records**
- 4. Ensure that your key staff are available to your auditor**

Audit Quality (cont'd)

- 4. Be actively involved – take the initiative to understand what your auditor is doing and ask questions**
- 5. Make the most out of the exit process – ask questions about your auditor's work, the audit opinion, and other compliance reports**

The Governing Board



Board's Responsibility with Respect to the Independent Auditor

Prior to commencement of the audit:

- **Oversee the appointment of the independent auditors and related audit fees**
- **Determine effect of non-audit services on auditor independence**
- **Review the audit scope and plan of the independent auditors**

Board's Responsibility with Respect to the Independent Auditor

At the conclusion of the fieldwork:

- **Review comments re: internal control matters**
- **Review any significant findings, recommendations and management's responses**
- **Determine that all internal control weaknesses are reviewed and addressed.**

Board's Responsibility with Respect to the Independent Auditor

Conclusion of the fieldwork (cont'd):

- **Review the Audit Governance Letter**
 - any difficulties conducting audit
 - changes in the initial audit plan,
 - Significant audit entries

Board's Responsibility with Respect to the Independent Auditor

Review:

- The financial statements and footnotes!
- Tax information return



Board's Responsibility with Respect to the Independent Auditor

After the audit:

- **Review staff recommendations for changes in processes and procedures**
- **Evaluate the auditors**
- **Request RFPs if changes are being considered.**

External Resources

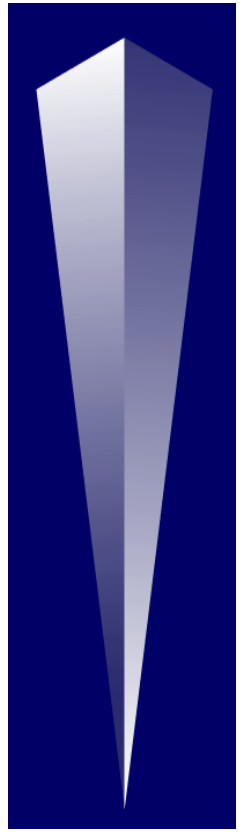
- **COSO – Internal Control-Integrated Framework** www.coso.org \$\$
- **“Green Book” - Standards for Internal Control in the Federal Government** www.gao.gov (free)
- **Compliance Supplement 2015 (this is the most current)**
[www.whitehouse.gov/omb/circulars/a133
compliance_supplement_2015](http://www.whitehouse.gov/omb/circulars/a133/compliance_supplement_2015)

**“The road to success is
always under
construction.”**

-Lily Tomlin

Questions





DAMORE, HAMRIC & SCHNEIDER, INC.

Certified Public Accountants