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How to Prepare For An Audit

TOS CPIM Training ~ 2018

Ohio Auditor of State

Dave Yost

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What We Will Be Covering

Participants will learn about an audit:

- Definition
- Purpose
- Frequency
- Preparation
- Audit process
- Reporting
- Where to find help!



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Audit

- Systematic process
- Objectively obtaining and evaluating evidence regarding assertions about economic actions and events
- Ascertain the degree of correspondence between those assertions and established criteria
- Communicating the results to interested users



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Audit Evidence

AU-C 500.04

- The objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.



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Assertions

- Occurrence - Transactions or Events that have been recorded or have occurred that pertain to the entity
- Completeness - All transactions and events that should have been recorded have been recorded.
- Accuracy - Amounts and other data relating to recorded transactions and events have been recorded appropriately (i.e. at the proper amount).
- Cutoff - Transactions and events have been recorded in the correct accounting period.
- Classification - Transactions and events have been recorded in the proper accounts.



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Assertions (con't)

- Existence - Assets, liabilities, and equity interests exist
- Rights and obligations - The entity holds or controls the rights to assets, and liabilities are the obligations of the entity
- Completeness - All assets, liabilities, and equity interests that should have been recorded have been recorded
- Valuation and allocation - Assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.



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AOS

- The Auditor of State is the constitutional officer responsible to audit 6,000 local governments, state agencies, boards & commissions, including colleges and universities
- Some audits are performed by Independent Public Accountants (IPAs) on a contract basis.



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Purpose of an audit

- **Expressing an independent opinion**
- Add credibility to financial statements
 - Whether the financial statements comply with established criteria
- Management's assertions underlying the information included in the f/s



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Audit frequency

- Ohio law - biennial
- Single audit – annual \$750,000
- Any time
 - Government request
 - Auditor of State’s initiative



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When will my audit be done

- Goal is within 9 months of FYE
- Many factors involved
 - Client availability
 - Auditor availability
 - Condition of records



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Where will my audit be done

- Client Location
- Regional Office
- RWL
- Another audit site
 - County
 - Other Entity



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AOS Regional Office Numbers

Southeast 800-441-1389

East 800-443-9272

Southwest 800-368-7419

Northeast 800-626-2297

Central 800-443-9275

West 800-443-9274

Northwest 800-443-9276



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The Audit Process



- Who does my audit
 - AOS Staff
 - IPA Staff
- Who decides if AOS or IPA does my audit
- How many auditors does it take



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IPA Audit

- Auditor of State request
- Client request
- Auditor of State approves scope of audit
- Submitted to AOS Center for Audit Excellence (Quality Assurance)



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IPA Audit

- IPA multi year contract
- Bidding process
- Tiers 1-3
 - Bundling for tiers 2 & 3
 - Evaluation by region



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Preparing for an audit

- Reconciliations
- Annual Report
- Maintain public records
 - Including service organizations



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Typical records needed

- Minutes
- Resolutions
- Bank Reconciliations
- Bank Statements
- Receipts/Pay-ins
- Vouchers/invoice
- Payroll
- Contracts



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Typical records needed

- Filed financials and notes
- Investments policy/depository agreements
- Budgetary
- Bonds
- Grant award letters
- List of officials with contact information
- Support for accruals (if GAAP)



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Financial Statement Filing Requirements

- AOS Bulletin 2015-007
 - Filing requirements, required components, due date extensions and unauditable declarations
 - Mandatory method for filing via the AOS' Hinkle Annual Financial Data Reporting System-Hinkle System (formerly known as AFDRS)
 - Hinkle System is an internet-based application that allows certain financial statement, debt and demographic data to be entered and/or uploaded and transmitted to the AOS to satisfy the filing requirements of the Ohio Revised Code (ORC) and the OAC



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Financial Statement Filing Requirements

- AOS Bulletin 2015-007 (cont)
 - Require non-generally accepted accounting principles (non-GAAP) basis financial statements to include notes to the financial statements as part of the filing
 - The change in AOS policy to require the financial statements filed via the Hinkle System to be audited beginning with periods ending in 2016



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Statutory Filing Requirements

- ORC § 117.38 requires that local public offices file their annual financial reports with the AOS
- OAC § 117-2-03(B) requires all counties, cities, school districts, including educational service centers and community schools to prepare their financial reports pursuant to GAAP
- Government insurance pools GAAP for periods ending December 31, 2016



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Filing Deadline

- Reporting pursuant to GAAP
 - File their reports within one hundred fifty (150) days after the close of the fiscal year
 - CIC, EDC, CLRC, and CDC within 120 days of their fiscal year end
- All other (Cash basis) and GAAP mandated not filing GAAP
 - Filed within sixty (60) days after the close of the fiscal year
- If due date weekend/holiday then next business day



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Failure to File Mandated Basis and Late Filing

- Non compliance citation
- Penalties
 - \$25/day
 - \$750 maximum
- Any entity with a filing requirement must file a separate financial report. Inclusion in the financial statements of another reporting entity normally does not satisfy the filing requirement
- If not filed-no reduced AUP or basic audit allowed



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Quiz

A public entity must be audited

- A) Every year
- B) Every 3rd year
- C) Every 2 years if single audit
- D) Never
- E) Every 2 years



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Cost

- More we do, more it will cost you
 - Federal schedule
 - Prepare f/s and/or notes
 - MD&A
 - Pull vouchers
 - Organize records
- Note: Auditor independence must be maintained



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Types of reporting

- Basic Audits
- AUP
- AOS Regulatory Basis
- GAAP Look-a-like (OCBOA)
- GAAP



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“Basic Audit”

- Does not follow AICPA standards
- Annual Disbursements \$100,000 or less or less than \$200,000 for a two year period.
- No other audit requirement (single audit, contract)
- Not under a special investigation
- Reconciled (not unauditible)
- Filed financial statements and notes with AOS
- No FFR for accounting department theft
- Not in fiscal emergency
- Acceptable results of procedures
- See AOS Bulletins 2012-007 and 2015-001
- AOS performs all (no IPA's)



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Basic Audit

- On-site limited review
 - Key internal controls
 - Targeted tests of significant transactions
- On-site interviews of management
- Analyze and review select entity records
- Review designed to assess whether the entity
 - Maintains necessary up to date controls and records
 - Conducts the required business of the entity



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Small Government AUP Overview

- Eligible clients could have up to two AUP cycles, followed by one audit cycle
- Clients must continue to file their annual financial statements with AOS, as described in AOS Bulletin 2015-007
- Eligibility checklist per AOS web-site
 - <https://ohioauditor.gov/references/agreeduponprocedures.html>



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Small Government AUP Eligibility



- Clients may be eligible, but may not want an AUP:
 - Grant, by-laws, etc. may require a full audit (as discussed on a previous slide)
 - Clients can always opt out of the AUP if they want an audit
 - It is the client's responsibility to know if they have other audit requirements



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What does an AUP entail

- Test fewer transactions
 - Receipts and disbursements
 - Legal compliance
- No opinion over financials
- Auditor must complete eligibility checklist
- Any exception over \$10 is reported



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Small Government AUP Shells

- AUP shells have been developed for each type of client
- Shells include required tests for:
 - Financial transactions
 - Cash balances
 - Ohio Compliance Supplement



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Financial Statement Audits

- Plan the audit
- Gather or update information needed
- Understand internal control structure
- Perform substantive tests
- Audit completion
- Reporting



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Planning the Audit

- Preaudit conference with officials/audit committee
- Information needed for the audit
- Changes from prior year
 - Reporting entity
 - Personnel/systems



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Preaudit Conference

- Staff assignments
- Location/needs
- Estimated fieldwork dates
- Estimated deliverable dates
- Audit issues
- LOA
- Active shooter/evacuation policy



NEW!



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Gather or update information

- Obtain knowledge of clients operations
- Review prior year working papers
 - Recurring engagement-update
 - New engagement-review predecessor working papers
- Update auditor knowledge
- Identify inherent risk
- Assess fraud risks



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Letter of Arrangement (LOA)

- Purpose to establish an understanding of the client's responsibilities, terms of engagement & fees
 - Identify service organizations
 - Confidential information



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Internal Controls

- A process
- Affected by a client's governing board, management and other personnel
- Designed to provide reasonable assurance of the achievement of certain objectives



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Substantive test

- Analytic procedures
- Tests of details



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Analytic procedures

- AU-C 315 and 520
 - Planning
 - Final review
- Substantive test
 - Audit efficiencies
 - Estimation of account balance



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Perform substantive tests

- Systems derived
 - Payroll
 - Billings
- Non systems derived
 - Debt
 - GAAP accruals



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Test of details

- Confirmation
- Inspection
- Reperformance
- Vouching



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Federal Single Audit

- Single audit required
 - If Expenditures $>$ or $=$ \$750,000
- Determining expenditures
- Federal Schedule
- Determining major programs
- Report due date
 - Earlier of 30 days after report issuance from AOS, or
 - 9 months after fiscal year end



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Ohio Compliance Supplement

- Review entire Ohio Compliance Supplement!
- Become familiar with the requirements and testing procedures so you know what the auditors might ask for. (legal matrices good place to start)
- Even if the law has been around a long time, changes can occur, and amended guidance and procedures may be included.



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Audit completion

- Going concern analysis
- Subsequent events review
- Perform final materiality judgment
- Draft report
- Post audit
- Obtain management representations



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Types of Audit Comments

Report Level

Management
Letter

Verbal



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Types of Audit Comments

Report Level

Single Audit

GAGAS

Noncompliance

Internal Control
Material Weakness or
Significant Deficiency

Noncompliance

Internal Control
Material Weakness or
Significant Deficiency

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Types of Audit Comments

Management
Letter
or Verbal

Noncompliance

Recommendation



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Post audit Conference

- Meet with officials (Board, Treasurer/ CFO, Audit Committee) to go over results of audit
- These officials should have results ahead of time to look over
- Obtain Representation Letter



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Representation Letter

- Letter from management
- Gave auditors all records
- All material items disclosed
- Any adjustments not made are immaterial



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Quiz

True or False?

Since an auditor performs my annual audit, the ultimate responsibility for the financial statements rests with the auditor



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Report Issuance

- Report released by the Clerk of the Bureau in Columbus
- Posted to the AOS web site
- Your audit report (and Management Letter) is a public record once released



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Help?

- Other fiscal officers
- Your legal counsel
- Handbooks
- Associations
- UAN helpline
- AOS regional offices
- AOS web site



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- IPA Resources
- Publications & Manuals
- Helpful Web Links
- Student Center
- Customer eServices
- AOS Notifications

AT MAP



Cybersecurity Webinar

Our office has created a free training to help fight cyberattacks

WEBPAGE WEB PAGE



Pocketed Payments

A guide to help prevent theft of incoming funds by rogue employees

SPECIAL REPORT INTERACTIVE MAP



Financial Health Indicators

Updates to "fiscal physical" tool offer new search functionality

WEBPAGE BREAK STORY

IN THE NEWS

Tweets by @OhioAuditor

Financial concerns put Alliance in state fiscal caution

Canton Repository, Jan. 18, 2018

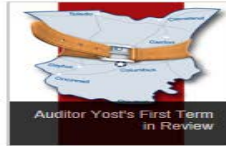
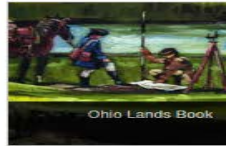
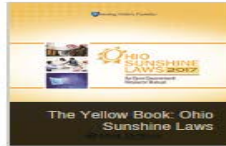


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Office Publications



Publications

- [Cybercrime Prevention](#)
- [Auditor Yost's First Term in Review](#)
- [Keeping Audit Costs Low: AUPs and Basic Audits](#)
- [State Agency Performance Audits & the Ohio Performance Team](#)
- [What Can I Do to Lower My Audit Costs?](#)

2018 Desk Calendar

Fact sheets

- [FHI User's Guide](#)
- [SNAP graphics](#)
- [Press kit](#)
- [Office overview](#)
- [Dave Yost bio](#)
- [Office accomplishments](#)
- [Fiscal Integrity Act](#)
- [Fiscal Distress](#)
- [LGS](#)
- [What is an AUP?](#)
- [Ohio Performance Team](#)
- [Public Integrity Assurance Team](#)
- [Office contacts](#)
- [Published articles](#)
- [Reporting fraud](#)

Best Practices

- [Best Practices 2004-2017](#)
- [October 2017](#)
- [November 2017](#)
- [December 2017](#)

Reports

- [FHI Update](#)
- [Special Report: Pocketed Payments](#)
- [Special Report: Credit Card Dangers](#)
- [Special Report: Financial Health Indicators](#)
- [Special Report: Weighing the costs and benefits of open enrollment](#)
- [2016 Report on Supplemental Nutrition Assistance Program \(SNAP\)](#)
- [2016 Sunshine Audit Report](#)
- [2015 East Cleveland Financial Planning Commission Report](#)
- [2015 NSAA Peer Review Opinion](#)
- [First School Attendance Audit \(2013\)](#)
- [First Charter School Attendance Audit \(2015\)](#)

Performance Audits

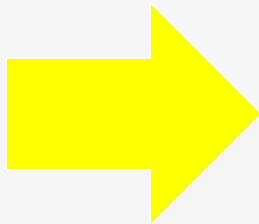
- [Ohio Auditor of State Performance Audit](#)
- [Ohio Department of Transportation Performance Audit](#)
- [Ohio Department of Education Performance Audit](#)
- [Ohio Department of Job & Family Services Performance Audit](#)
- [Ohio Housing & Finance Agency Performance Audit](#)
- [Ohio Department of Natural Resources Performance Audit](#)
- [Ohio Department of Transportation Performance Audit](#)
- [Ohio Department of Rehabilitation and Correction Performance Audit](#)
- [Ohio Environmental Protection Agency Performance Audit](#)
- [Lake County Capital Equipment Utilization Study](#)

Manuals

- [Ohio Compliance Supplement Manuals](#)
- [The Yellow Book: Open Government Resource Manual](#)
- [County Board of Developmental Disabilities Manual](#)
- [Guidelines for Developing Policies for Student Activity Programs](#)
- [Ohio Association of County Behavioral Health Authorities Behavioral Health](#)
- [Ohio County Treasurer's Manual 2017](#)
- [Ohio Sheriff's Manual](#)
- [Ohio Township Handbook](#)
- [School District Self Assessment Guide](#)
- [Uniform System of Accounting for Agricultural Societies](#)
- [Uniform School Accounting System User Manual](#)
- [Village Officer's Handbook](#)
- [Audit Committee Toolkit \(.zip\)](#)

Technical Bulletins

- [Bulletins 2017-1995](#)



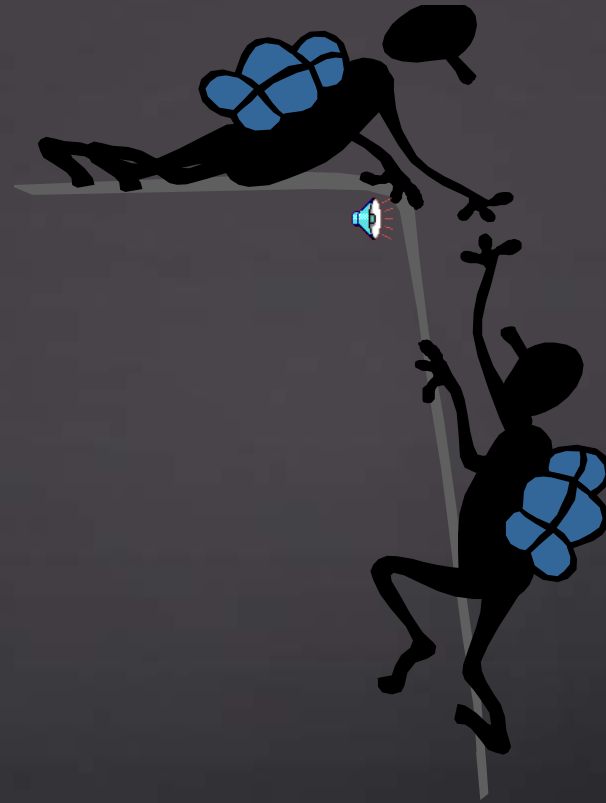
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AUDIT



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Always Remember.....
Auditors are here to help!!



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How To Prepare For An Audit

Columbus State Comm. College

Jim Rader – JARader@ohioauditor.gov

Owens Community College (Findlay)

Doug Zimmerman – DEZimmerman@ohioauditor.gov

Sharonville Convention Center

Betsy Amend – BLAmend@ohioauditor.gov

Tri C Corporate College (Warrensville)

Evan Witte – ETWitte@ohioauditor.gov



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