

A person wearing a light blue dress shirt and a dark blue patterned tie is shown from the chest down. They are holding a red pen in their right hand and a silver calculator in their left hand. They are looking at a large, open document with many columns of text, likely a financial statement or audit report. The background is a soft, out-of-focus light blue.

Audit Preparation

By

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Compliance

Uniform Guidance Planning

- Identify federal and state grants / contracts
 - Establish central location for grant agreements
 - Business office (smaller schools)
 - Each department head/grant manager (larger schools)
 - Folder by fiscal year for each grant being drawn on
 - Identify in accounting system
 - Separate fund for each grant
 - Separate Grants that cross fiscal years (carryover)
 - If in ADS
 - Add to the end of the account code
 - If in MUNIS
 - Use project codes for grants that cross fiscal years

Uniform Guidance Planning

- Prepare unadjusted SEFA (management responsibility)
 - Use PY SEFA which can be requested from auditor in Excel
 - Prepare an internal version (preferred method)
 - Grant name
 - Pass-through agency
 - Pass-through number
 - Award amount
 - CFDA Number
 - Federal expenditures
 - Use amount per accounting system not internal reports

Uniform Guidance Planning

- Review for prior year findings
 - What were our prior year findings?
 - What caused the findings?
 - What was our response / corrective action plan?
 - Did we need a new policy?
 - Has this policy been implemented?
 - Look at current year documentation and analyze if issues have been addressed
 - Perform a sample to go above and beyond

Uniform Guidance Planning

- Current year testing
 - Request a document list from the auditor
 - May not provide all items being tested but should be able to provide a sufficient amount of items
 - Look at Compliance Supplement
 - Available online at AICPA.org
 - Keeps management aware of what auditors are looking at
 - Review for new compliance requirements
 - Written UG procurement policies (7/1/2018)
 - Title I and Local Entitlement – time and effort documentation
 - Provide all correspondence from oversight agencies

Uniform Guidance Planning

- Monitoring funds passed through government
 - Identify agreements with other governments that pass federal and state funds through your government
 - Establish procedures for monitoring grants (information is in compliance supplement)
 - Identify the award and applicable compliance requirements
 - Evaluate risk
 - Monitor
 - Review financial information and program reports
 - Perform audits or on-site reviews and provide findings
 - Ensure that findings are being addressed and corrected

Internal Control

A person wearing a light blue dress shirt and a dark blue patterned tie is seated at a desk. They are holding a red pen in their right hand and looking at a large document spread out on the desk. Their left hand is resting on the document. A silver calculator is visible in the lower right corner of the frame. The background is slightly blurred, showing the person's torso and the desk surface.

Internal Control Planning

- Review prior year significant deficiencies and management letter comments
 - What were the deficiencies / comments?
 - What caused the deficiencies / comments?
 - Did we need to implement a new policy?
 - Has the policy been implemented?
 - Perform a small sample based on the specific issues to determine if issues have been addressed

Internal Control Planning

- Request from auditor which control activities will be tested
- Alert staff outside of accounting department
 - HR, School Lunch, activity fund directors, etc.
- Pull all requested documents prior to the arrival of audit team
- Update checklists and write-ups
 - Ensure that write-ups are accurate (control tests are based on these)
 - Give definitive due dates to other departments for updating control write-ups
- Provide all updated policies / control materials
 - Union contracts, employment manual, procurement manual, accounting control manual

Common Control Issues – Payroll

- Documentation of authorized employee pay rates (non union)
 - Approved pay rate sheets
 - Listing of all non-union employees with pay rates and signed by Superintendent (only for small schools with limited number of positions)
 - Trail in employee file from offer letter to most current rate (most risky)
- Documentation of union employees additional pay
 - Certifications should be in file and current
 - Stipends should generally be approved each year

Common Control Issues – Payroll

- Employee health insurance withholdings
 - Table from health insurance provider that shows employer and employee portion by employee agreement (if benefits differ by union) and insurance coverage
 - Ensure that every employee has an updated election form in personnel file
 - Once a year an employee should review a few employee election forms
 - Compare to health insurance bill
 - Once a year (for same employees) review the withholdings for a payroll run
 - Compare that to the table of ER and EE portions form insurance provider

Common Issues with Disbursements

- Bidding
 - Not having a clear policy
 - Sealed bids?
 - Informal bids?
 - Not following policy consistently
 - Review your policies surrounding bidding and ensure that they are clear and employees involved in procurement understand them
- Purchase orders
 - When do we issue a PO (policy says all over \$500?)
- For both bidding and PO's there needs to be clear policies for exceptions

Common Issues with Revenues/Receipts

- Decentralized collections locations (school lunch and activity funds) not depositing funds within 10 business days of collection
 - Becomes less of an issue with credit cards / online meal accounts
 - Need to ensure that employees develop a schedule for depositing funds and have plans for employee vacations
- Credit card deposits
 - Credit cards typically deposit 2 to 3 days after transactions
 - Issues usually come up with lack of reconciling actual daily credit card receipts per CC company vs GL
 - Driven by running transactions after cash up
 - Need to develop a reconciliation that accounts for these differences, should not just have a “net due from credit card company” at month end.

Green Book

- What is the Green Book?
 - Internal control guide that adopts many of the key concepts of the 2013 COSO, Internal Control Integrated Framework and adapts them for a government environment
 - Establishes
 - Definition of internal control
 - Categories of objectives
 - Components and principles of internal control

Why Green Book?

- While Green Book is specifically applicable to federal entities, it may be applied to state and local governments as a framework for internal control systems.
- Uniform Guidance identifies Green Book as best practice for organizations for meeting requirements of establishing and maintaining effective internal control that provides assurance that entity is managing federal awards in compliance regulations and terms and conditions of federal awards and regulations.

A close-up photograph of a person in a light blue dress shirt and a dark blue patterned tie. The person is sitting at a desk, looking at a large, open document that appears to be a financial statement or tax form. Their right hand is holding a red pen, and their left hand is resting on the document. A silver calculator is visible on the desk to the right. The text "Year End Account Support" is overlaid in the center of the image.

Year End Account Support

General

- Account reconciliations
 - Do I have a reconciliation for each GL account?
 - Are reconciliations simple enough to understand?
- Establish month end and year end schedules
- Establish a yearly planning meeting with individuals involved in audit
 - Business office staff, payroll/HR director, department heads with significant accounting activity
- What were last years adjustments?
- Learn to draft
 - Identifies errors before auditor comes
- Review FS disclosures and ensure that everything is accurate

Cash and Investments

- Prepare a listing of authorized signers for all cash and investment statements
- Confirmation preparation (in engagement letter)
- Create bank recons that are understandable
 - Bank balance less outstanding checks plus outstanding deposits = GL balance
- Excess insurance for balances beyond FDIC
- Bank account tracked outside of accounting software
 - Recording transactions all year in subsidiary ledger
- Analyze investment statements
 - Record everything mark to market?
 - What about holding investments to maturity?

Accounts Receivable

- Establish a cut off date for posting
- Establish a date that all grant draws need to be prepared and posted by
- Create a legitimate receivable listing (if system cannot generate)
 - Customer, customer type (government vs private company), date of invoice, date due, age, ending balance
 - Allows for knowing who owes the government money
 - Allows for seamless allowance estimation
- If using the “billing system”
 - Reconcile as part of **monthly** close process

Prepays

- Prepaid Expenditures
 - When do we have a prepay?
 - Considerations
 - Postage, software, insurance

Inventory

- Schedule year end counts
 - Always inform auditor when counts are occurring
 - Ensure adjustments are posted based on counts
 - If auditor performs a test count ensure that there is a method for tracking from the day of the count to the actual ending listing
- Challenges exist due to employees of departments that handle inventory are not accountants
- Manual listings (not in software)
 - Ensure that original Excel files are retained incase of formula errors

Capital Assets

- Review prior year listing in detail
 - Helps with disposal identification
 - Helps with remembering which projects were in CIP
- Establish 8/31 (or week before audit) as cut off for other departments to turn in capital purchases.
- To extent possible, enter items on schedule as they are purchased or constructed

Capital Assets

- For smaller schools
 - Keep a folder running all year with all items that the business manager believes to be capital in nature
 - Post all proceeds from capital asset sales to a single GL account
 - Manual listing (excel)
 - Review formulas
 - Ensure older assets are not being over depreciated (add NBV column)
 - Establish simple means of first year depreciation expense (half year)

Accounts Payable

- Establish a cutoff date
- Accounts payable posted by system
 - Print listings and reconcile with general ledger monthly
 - Do not expect the subsidiary ledger to match the general ledger on 6/30
- Manual accounts payable
 - Review PY listing and journal out all paid bills
 - Any amount still outstanding gets added to new listing
 - Establish a clear format for your listing
 - Vendor name, date of transaction, due date, amount due
 - Perform a 60 day search for missing items

Accrued Payroll

- Pull applicable payroll registers
 - First pay after year end
 - Teachers summer pay
 - Benefits included?
- If posting manually, create a simple reconciliation between first pay after year end and amount accrued
- Payroll withholdings (health, taxes, retirement)
 - Establish monthly reconciliation and reconcile throughout the year
 - Becomes more of issue every year and health insurance continues to skyrocket

Accrued Compensated Absences

- Print the vacation / sick balances on 6/30!
 - Many systems over write this information every payroll
- Review current policy manuals and union contracts
 - Is everyone included?
- Create or have auditor help create “if” formulas based on policies
- Stay constant year to year
 - Current rate vs next years rate
- Avoid double counting retiree payouts as both accrued comp and accrued payroll

Long Term Debt

- Accumulate all new bonds/leases/notes
 - Amortization schedules
- Copy the wire transfer for all proceeds wired directly to government's checking account
- Look at prior year disclosures in FS
 - Alert auditor if anything is inaccurate
- Maintain internal schedule of debt agreements and balances

Other Long Term Debt – OPEB / Pension

- Ensure actuary is retained if you administer your own pension plan or if you have other post employment benefits liability outside of MMEHT
- Typically can be done anytime after 12/31 of the reporting year
- Ensure that actuary reports are completed and received by start of field work
- If you draft your own statements, request that the auditor provides a workpaper that contains current liability and disclosure information

Interfund Accounts

- Review transfers posted in system to ensure that everything is in balance
 - Prepare a reconciliation if necessary for transfers posted to accounts not labeled as transfers. (should be maintained all year)
- Review due to / due from accounts to ensure amounts are in balance

Fund Balance

- Encumbrance listing (usually a standard report in system)
 - Need to ensure that encumbrance control and encumbrance account are in balance
 - Small clients have tendency to confuse payables and encumbrances in system. If you are small and not sure how to handle encumbrances then prepare them manually in Excel (outside of accounting system) and have auditor encumber the funds on the budget vs actual schedule of FS manually.
- Reserve activity and other direct fund balance posts
 - Maintain a schedule throughout the year of opening balance, revenues, expenditures, and transfers.

Fund Balance

- Have next year's budget available if use of FB has been passed
- Review analysis of unassigned fund balance (well before audit)
 - Cannot exceed 3%
 - Use the analysis to establish a use of FB for next year or establish reserves

Revenues and Expenditures

- Review budget vs actual (including after posting year end entries)
 - Will allow for budget transfers to approved and posted prior to audit beginning
- Review current year vs prior year
 - Helps identify posting errors before the auditor finds them
- Review recorded revenues vs P-100
 - Helps ensure that SEFA is accurate and that most of the school revenues are accurate as well

Town/City to School Reconciliation

- Can be avoided:
 - If school is given their own checking account and the general fund is moved to a school operations fund
 - If school and town/city are on the same accounting system
- Can be made easier if:
 - Reconciliation is understood by the employee performing the reconciliation
 - It is done every month
 - Coordinated effort is made with town finance director
 - All accounts including balance sheet accounts are reconciled

Operating Leases

- Keep agreements together
- Build a schedule for future lease payments by lease
- Will be looked at very closely in 2019 with GASB 87 being applicable for 7/1/2020 – 6/30/2021 fiscal year
- Ensure that lessee agreements are accessible as well
 - School owned buildings that lease space

Other / Miscellaneous

- Defined Contribution Plans
- Construction Commitments
- Legal issues needing to be disclosed

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New GASB Statements

Preparation

- Read the GASB
 - Look at appendix
- Read the implementation guide
- Read professional articles
- Prepare the disclosure and adjustments (if any)
- Communicate with auditor
 - Consider attending CPE provided by audit firm

Important Upcoming GASB Statements

- GASB 84 – Fiduciary Activities (FY 2020)
- GASB 87 – Leases (FY 2021)

GASB 84 – Fiduciary Activities

- Objective is to enhance consistency and comparability of fiduciary activity reported by governments
- Four types:
 - Pension trust funds
 - Investment trust funds
 - Private-purpose trust funds
 - Custodial funds

GASB 84 – What is Changing?

- Moneys in student activity funds which do not pertain to actual student activities may not be able to be classified as fiduciary funds
- Additions and deductions for activity funds for the year will need to be reported in the Statement of Changes in Fiduciary Net Position

GASB 84 – What is Changing?

- Private purpose trust funds (scholarship funds) will need to separately display:
 - Investment earnings
 - Investment costs, including management and custodial fees and other significant related costs)
 - Net investment earnings
- Schools will be required to compile this information

GASB 87 - Leases

- Objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing comparability of financial statements between governments; and also enhancing relevance, reliability, and consistency of information about leasing activities

GASB 87 – What is Changing?

- There will be an asset and a liability recorded for leases which are currently considered operating leases (not a financed purchase)
- Currently, the only disclosure required is a schedule of future minimum operating lease payments
- Will now record a lease asset (right to use asset) that will need to be amortized in a systematic and rational manner

GASB 87 – What is Changing?

- Will need to measure a lease liability at the present value of payments expected to be made, which would include the following:
 - Lease term, which includes options to extend
 - Fixed and variable payments
- May need to remeasure the lease liability at subsequent financial reporting dates if certain changes have occurred

Finally, the End!

- Questions??