

# Audit Preparation

**Katie Stachow, CPA**  
**Altman, Rogers & Co.**

# Auditing in the Electronic Environment

- Most CPA firms have gone paperless and are now using audit software – why the switch?
  - Less paper to haul around, less waste
  - Increased efficiency in subsequent years
  - Can be used to write the financial statements
  - Advanced auditing techniques using data extraction software
- School Districts are starting to head in that direction -
  - What are the ramifications of going paperless and how does it affect the audit process?

# Electronic Workpapers

- Common Questions from Districts:
  - What do we need to keep on hand - ie. support?
    - ✦ Cash disbursements - still need to see a copy of the check and adequate support (requisition forms, purchase orders, invoices, approvals, etc.)
    - ✦ Payroll – copy of paycheck, timecard or time study, personnel file or personnel action form to confirm pay rates and G/L coding.

There needs to be internal controls over the scanning process.  
Scans should be reviewed for accuracy before source documentation is disposed of.

# Electronic Workpapers

- How long to keep it?
  - ✦ IRS guidelines say 7 years for most records.
  - ✦ The new Green Book (Code of Federal Regulations that dictates internal control requirements) sets the minimum requirements at 3 years, unless specifically required by outside sources, ie. court order. Districts aren't required to follow Green Book Standards, but can adopt the framework
  - ✦ Management should review internal policies for record retention policies to ensure they meet these guidelines.

# Electronic Workpapers

- Now that auditors have switched to paperless, it is extremely helpful to provide as much information as possible in an electronic format.
- We understand this isn't possible for all items.
- Items that have to be electronic:
  - Year end trial balance in excel – must include columns for:
    - ✦ Fund – function - object
    - ✦ Account description
    - ✦ Account balance

# Testwork Samples

- Prior to the start of the audit, auditors will request beginning and ending numbers for testwork:
  - Cash disbursements
  - Payroll
  - Cash Receipts
  - Credit cards (if you have a large number of cards)
- Samples will be returned to you. Very helpful if the information is filled out electronically.

# Purpose of Testwork

- Uniform Guidance and the State of Alaska Audit Guide and Compliance Supplement require use to attempt to test controls and assess control risk at low for cash disbursements and payroll
- This is achieved by testing a sample of at least 40 transactions. If we discover 0 errors, control risk is set a low.
- Also, allows auditors to rely on the internal controls of the District and reduces substantive audit procedures.

# Balance Sheet Items

- Cash –
  - Copies of June 30 bank statements and reconciliations for all accounts. Have July 31 statements available, possible they will be reviewed.
    - ✦ Should always review bank reconciliations for stale dated activity – usually over a year old. If you have checks/deposits o/s for this long they should be research and probably voided.
  - Collateralization agreement if bank balances are over \$250,000 (per institution)

# Balance Sheet Items

- Investments
  - 6/30 statements
  - Investment policy if anything has changes from prior years
- A/R
  - ✦ need A/R aging summary at year end
  - ✦ support for any large balances, such as e-rate
- Prepaids
  - If you have insurance policies that are prepaid we would need a copy of the policy and support for all payments made on the policy.

# Balance Sheet Items

- Inventory

- Fuel – tank measurements as close to year end as possible, as well as invoices for final purchase(s)
- Food – item count sheets and price per item. Need to know when counts were taken.
- Need to know the value of USDA donated commodities – print out from website works great.

- Accounts Payable

- Aging summary or A/P listing as of 6/30
- We will request check register from July 1 through the date of fieldwork as part of our search for unrecorded liabilities.
- We will select a sample of subsequent checks for review

# Balance Sheet Items

- Payroll

- Auditors need support for all large payroll liabilities at year end:
  - ✦ PERS / TRS payable
  - ✦ Self-insurance payable
  - ✦ Accrued leave payable
- Auditors will also perform CY vs PY analytical over certificated and non-certificated salaries and benefits. Large variances will need to be explained.
- If errors are found during PR testwork, additional support will be requested.

# Balance Sheet Items

- Capital asset listing
  - Date of purchase, useful life, cost, accumulated depreciation
  - Support for all current year additions
  - If assets were sold or disposed of we need to know. How much was received if assets were sold?

# Balance Sheet Items

- Leases

- Need lease agreements if any new leases were signed during the year.
- If leases are capital in nature need to know where payments are being coded so we can show them separately.
- Capital lease definition
  - ✦ Transfer of ownership
  - ✦ Bargain purchase option
  - ✦ Term of the lease is greater than 75% of the useful life of the asset
  - ✦ Present value of the lease payments > 90% of FMV of the asset

# Balance Sheet Items

- Fund balance
  - Nonspendable – inventory/prepaids
  - Restricted – by granting agency or some other outside source
  - Committed – by formal action of the School Board (capital project funds), can only be un-committed by the same formal action.
  - Assigned – intended to be used for specific purposes (encumbrances). Can be set by Board or designee.
  - Unassigned – amounts not contained in the other classifications.
  - 10% calculation (AS 14.17.505) Unreserved fund balance in the SOF < 10% of CY expenditures in SOF.

# Balance Sheet Items

- Net Position

- For financial statement presentation (was net assets pre-GASB 63).
- 3 classifications:
  - ✦ Net investment in capital assets
  - ✦ Restricted
  - ✦ Unrestricted



# Revenues

- Requested items:
  - State reports for Foundation, Quality Schools, Letters from the State showing allocation of House or Senate Bills
  - Impact Aid voucher reports
  - E-rate calculations and support
  - Final PERS & TRS on-behalf letters and support for allocation into the General Ledger (eligible salary by function should be used to allocate the benefit expense)
  - Support for any other large revenues
  - Auditors will perform final analytical: CY vs PY analysis, will be questions regarding variances.

# Expenses

- Expenses:
  - Not a lot of preparation is needed on the expense side outside of testwork spreadsheets.
  - If errors are found during CD testwork additional substantive procedures will be performed: vouching accounts details, etc.
  - Largest portion of audit work over expenses will consist of CY vs PY analysis. Significant changes in material accounts will be investigated further, usually by discussions with management.

# Special Revenue Funds

- Definition of SRF was changed with GASB 54.
  - To be reported in the FS's as a SRF, must have a dedicated revenue stream. GASB is vague on the definition of “dedicated”. Our policy is 50%, but can be a discussion point with your auditor.

# Special Revenue Funds

- What your auditors need:
  - Copy of balance sheet and profit and loss statement
  - Completed grant reconciliation
  - Grant award and final budget
  - If these are organized into folders on a data stick that would be great
  - If not grant funded, we need a copy of the budget that was passed by the Board (student trans / food service)
  - Support for large cash receipts. If errors were found during testwork over CR's additional support will be requested
  - If any site visits were performed during the year we would like copies of the reports
  - If grant funded, revenues should equal expenses

# Compliance

- Big changes from OMB

New guidelines included significant reforms to administration requirements, cost principles, procurement, related parties, and new standards for program management.

- ✦ Written policies are required in many cases and lack of written policies and timely implementation may result in compliance findings.

# Federal Compliance

- Auditors need updated SEFA at start of audit to determine major programs
- What your auditors are required to test
  - Determination of major federal programs is risk based.
  - “A” programs are usually > \$750,000, “B” programs are usually \$187,500.
  - OMB updates compliance supplement website yearly
    - ✦ [https://obamawhitehouse.archives.gov/omb/circulars/a133\\_compliance\\_supplement\\_2016](https://obamawhitehouse.archives.gov/omb/circulars/a133_compliance_supplement_2016)
    - ✦ Dictates what requirements we test:
      - Matrix
      - Compliance supplement

# Federal Compliance

- Testing of compliance and internal controls (dual purpose testing) over CD and PR transactions
  - Auditors usually test 10% of a populations under 250 transactions
  - Auditors usually select 40 transactions from populations > 250 transactions
- Reporting
  - Very common compliance test
- Impact Aid is most common major program
  - Need a copy of your impact aid application

# State Single Audits

- Auditors need updated SSFA at start of audit to determine major programs
- Compliance supplement updated every year
  - [http://doa.alaska.gov/dof/ssa/audit\\_guide.html](http://doa.alaska.gov/dof/ssa/audit_guide.html)
  - Selection of major programs is not risk based, instead based on expenditures:

Program expenditures*	Total State Expenditures*
• \$ 75,000	< \$1 million
• \$ 150,000	\$1 - \$5 mill
• \$ 200,000	\$5 - \$20 mill
• \$ 500,000	> \$20 mill

\*6/30/18 threshold increased to \$750k

# State Single Audits

- If you meet the \$750,000 threshold, Foundation will be a major program
  - Actual and projected ADM reports
  - OASIS student listing
- Pupil transportation is another common program
  - Service contracts
  - New(ish) reporting requirements

# Miscellaneous



# Miscellaneous

- Other items your auditors will ask you about:
  - Updating our permanent file –
    - ✦ Changes to any policies or procedures manuals
    - ✦ Updated board listing
  - School board minutes for entire fiscal year through issuance date
  - If you had any prior year audit findings you are responsible for telling the auditor what corrective action plans have been put in place and whether or not you believe the finding(s) have been resolved. Auditors will then test that.

# Miscellaneous

- Auditors are required to meet with the board to discuss audit approach and see if they have any fraud concerns
- They also should be included in exit conference to discuss any findings or issues
- 70/30 waiver
- 10% calculation review
- Student activity agency fund – current year activity and 6/30 bank statements to support balances