

How to Prepare for Your Audit

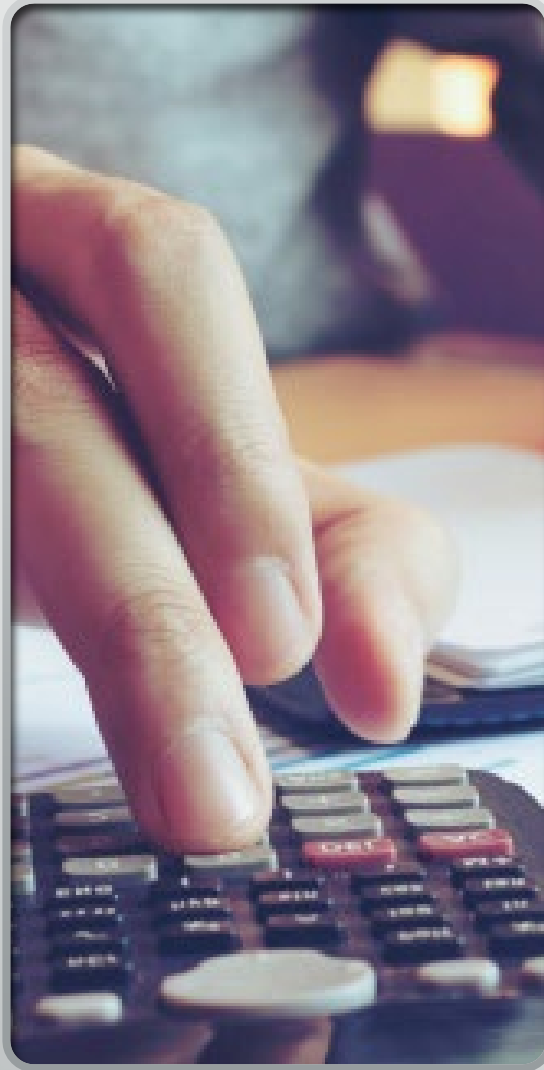
Avoid Problem Areas



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What Is An Audit & Why

- An audit is a systematic process to:
 - Objectively obtain and evaluate sufficient and appropriate evidence regarding financial statements and notes to the financial statements to express an opinion on the financial statements
 - Ensure the information within the financial statements and notes agree and contain adequate disclosures
 - Communicate those results to “users” (the public, bond holders, legislature, federal and state agencies, other governing bodies, etc.)



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Audits of County Officials

- The APA must annually audit the funds contained in each county's budget, and the books, accounts and papers of all county clerks and sheriffs. (KRS 43.070)
- The fiscal court has the option to contract with a private CPA for their financial statement audit, but must ask the APA's permission before doing so. (KRS 64.810)
- The APA's policy is to audit a fiscal court at least once every four years. The APA completes both the county sheriff and clerk fee audits as well as the sheriff's tax settlement audits.



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Preparing for the Audit

- Financial Records, Documents, & Reports
- Keep A Systematic Process of –
 - Daily Record Keeping
 - Reconciling Reports
 - Organized Filing System

Note: If you are “systematic” in your daily/monthly/quarterly work, you are basically ready for an audit at any time.



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Preparing for the Audit

We will call – generally 1-2 weeks in advance to set up the entrance conference.

Please let us know if any key staff “Treasurer, FO, Bookkeeper, Official” will be off or of any issue you think might interfere with the completion of the audit.



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Big Picture – The Overall Audit Process

- Initial Call - An Auditor will call and schedule audit to happen in a week or two
- “Engagement Letter” will come to via your **email**
- Get Your Docs Ready
- Fieldwork - auditors will work both ON-SITE and OFF-SITE during the course of the audit
- Level 1 review by APA auditor
- Exit Conference Scheduled
- Sign Rep Letter, Sign Copy of Exit Conference, review Financial Statements & Notes for Report, respond to exit comments
- Level 2 review by APA and then processing for public release
- APA will send (via email) a copy of the audit report that will be sent to the newspaper and uploaded to our website



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Entrance Conference



During our initial entrance conference, we will discuss various documents we need up front including:

- 4th Quarter Reports
- Reconciled Bank Statements – agrees to ledgers
- Payroll Records
- Receipts and Disbursements Ledgers
- Signed engagement letter



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Engagement Letter

- The engagement letter will be **emailed** to the official.
 - Note that the engagement letter has an attached listing “pre-audit package” noting many of the documents we will need for the audit. We provide this so you can use it as a checklist of things to gather before we have the entrance conference.



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**PRE-AUDIT PACKAGE FOR FISCAL COURT AUDITS
ENDING JUNE 30, 2020**
**The Following Documents And Records Need To Be Collected
And Made Available to the Office of the Auditor of Public Accounts**

- Fourth Quarter Financial Statement
- Treasurer's Annual Settlement
- Original Budget and Approved Budget Amendments
- June 30 Bank Reconciliations
- Prior Year Audit Report (if not performed by the APA)
- Pledges of Securities to Insure Bank Deposits
- Capital Asset and Infrastructure Schedules
- The following agreements, if they are new this fiscal year:
 - Note and Loan Agreements
 - Lease Purchase Agreements
 - Federal Grant Agreements
 - State Grant Agreements
 - Contract Agreements
- Appropriations Ledger
- Warrant Distribution Ledger or Disbursements Ledger
- Schedules of Bonds and Interest Payments
- Investment Ledger
- County Officials' Bonds
- Elected Official's Financial Disclosure Forms
- Cash Receipts Listing through June 30, 2020
- Bank Statements, Deposit Slips, Cancelled Checks, etc. from July 1, 2019, through July 31, 2020
- Bid Files
- Inventory Control Ledgers
- Quarterly Payroll Tax Returns
- Social Security, Retirement, and other Withholding Reports from July 1, 2019, through September 30, 2020
- Bid Advertisements
- Confirmation of Published Audit Report for Prior Year
- Current Insurance Policies
- Treasurer's Monthly Reports
- Schedule of Expenditures of Federal Awards
- ***** In preparation for GASB 87 – Provide a list of all lease agreements including but not limited to copier leases, real estate lease agreements, capital leases, vehicles leases.**



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Typical Records Needed

- Bank statements
- Bank reconciliations
- Financial statements
- Service Organization Agreements
- Fiscal Court Meeting Minutes
- Ordinances
- Receipts and Disbursements Ledgers
- Payroll records



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Typical Records Needed – Con't

- Contracts
- Bid files
- Approved budget and budget amendments
- Official Bonds
- Grant award letters and related documentation
- List of officials
- Capital Asset Records
- Debt Issuance documentation – NEW BOND? NEW LEASE?



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Typical Records Needed – Con't

- CDR documentation
- Component unit audit reports
- Public Properties Corporation financial statements and supporting documentation
- Inmate Records – Jail Canteen Account Reports and Reconciliations
- Monthly Tax Reports for Districts – Tax Audits
- SEFA – Schedule of Expenditure of Federal Awards
- Invoices



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Exit Conference



- Once onsite and offsite fieldwork is completed and an initial field review is completed by a Level 1 reviewer, we will schedule an Exit Conference with the Official and Bookkeeper/Treasurer.
- We will go over any items we have concerns with during the audit
- The official will have up to 10 days to make responses to the exit comments



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Level 2 Audit Review & Processing

- After the official's responses are received, the audit will be sent to Frankfort for a Level 2 review. Once that is completed, it will be moved to processing and final preparation of the audit report for public release via our website and an email to the official.
- Note: During this higher level review, follow-up questions or additional information might be requested from you.

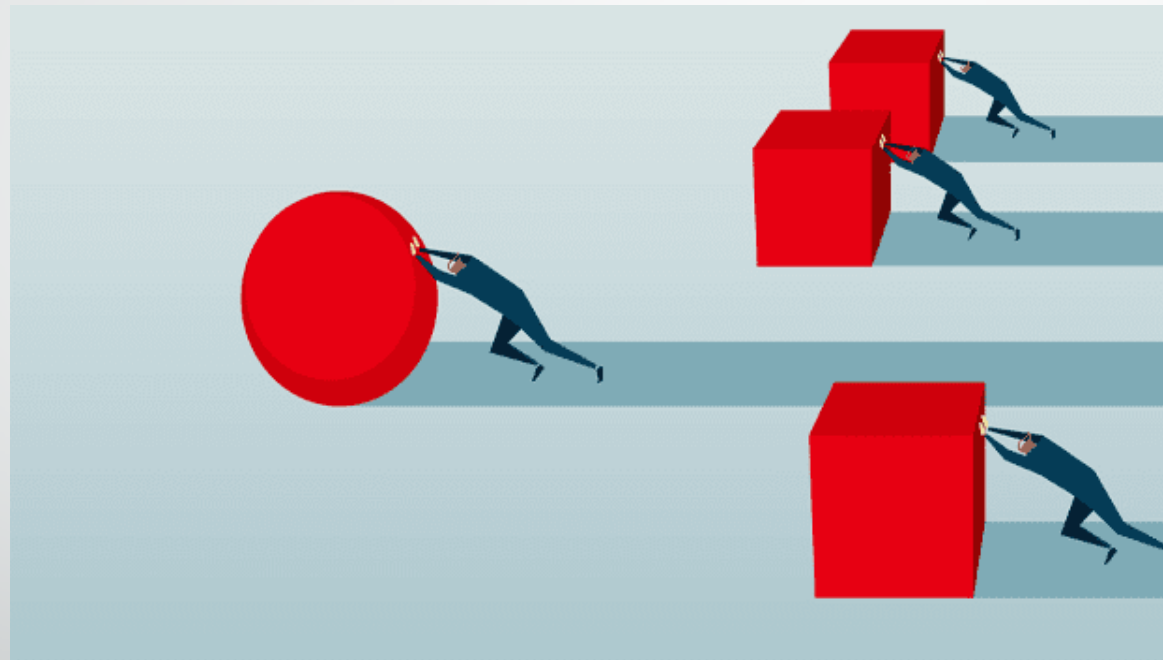


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Common Areas That Reduce Audit Efficiency



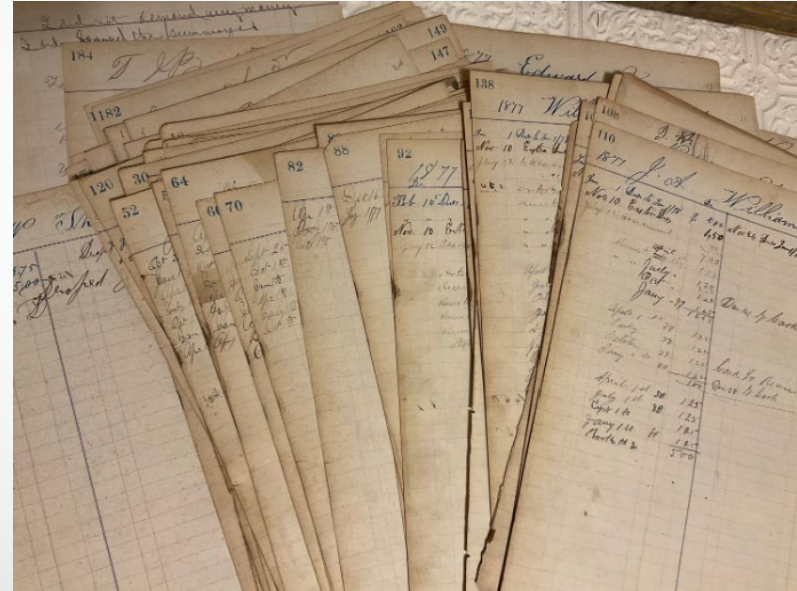
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Reconciliations Not Properly Tied To Ledgers

- Reconciliations are more than just checking off that checks have cleared the bank. That is just the first step.
- A reconciliation needs to agree your cash in the bank (on your bank statement) to the report/ledgers you are balancing.
 - Examples include
 - December 2022 Fee account reconciled bank statement should agree to the cash balance on the 4th Quarter Report.
 - Canteen/Inmate reports agree to reconciled cash in the bank.



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Payroll Account Not Reconciled

- The payroll account is a “REVOLVING ACCOUNT”
 - The account should reconcile to ZERO at the end of each month



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SEFA – Missing or Inaccurate



- Send to DLG as part of your 4th Quarter Report
- Your numbers need to tie to supporting documentation and ledgers
- Work Force Labor – You should have support/reconciliation that breaks out workforce labor to your payroll records.



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SEFA – What Goes On It?

- Federal Agency
- State Agency
- Assistance Listing Number (formerly known as CFDA #)
- Name of Program
- Name of Grant
- Grant ID #
- Award Amount
- Amount Expended



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Public Properties Corporations

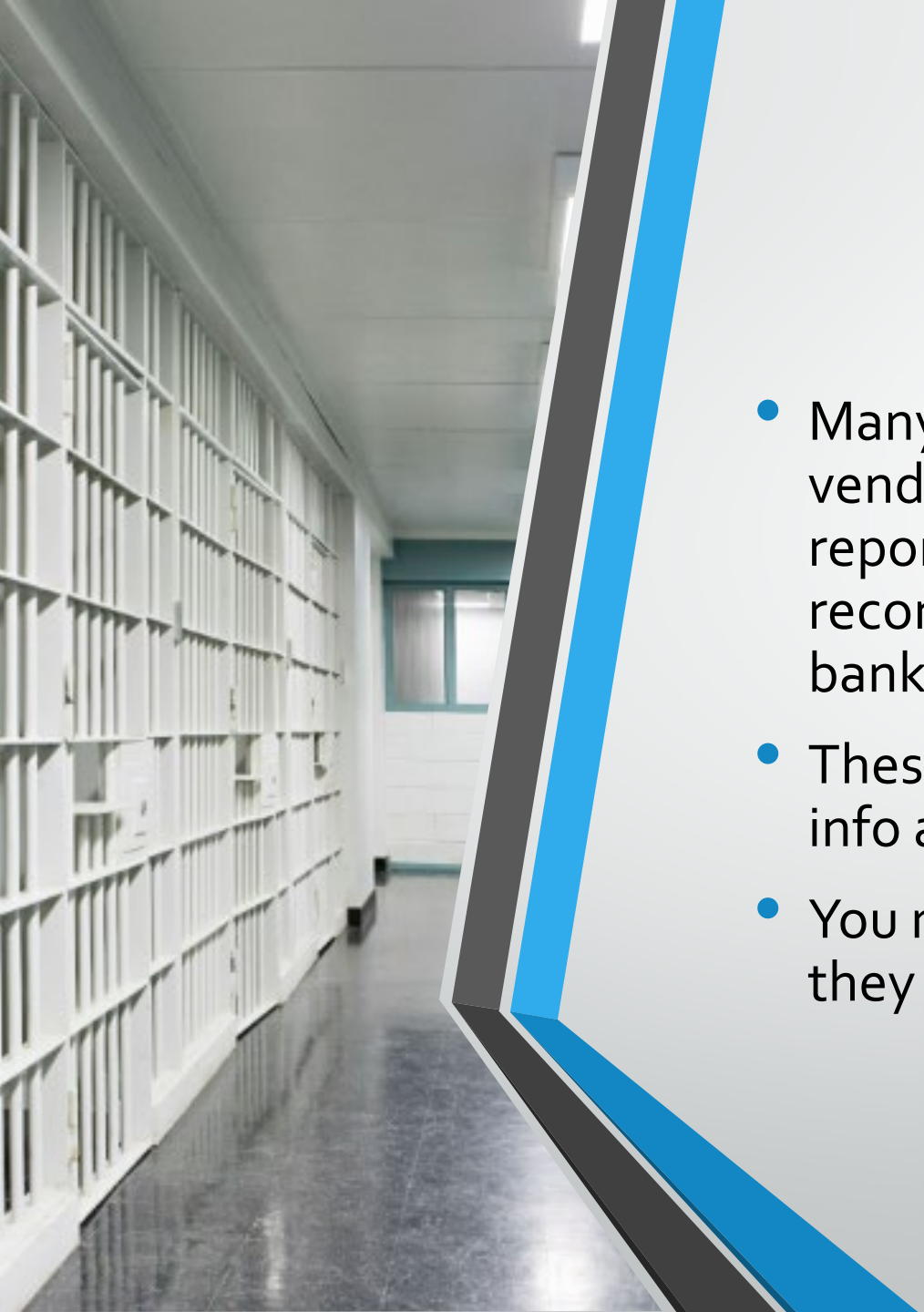
- Maintain receipts and disbursements ledgers
- A fund will be included in the financial statements for all activities
- Have bank statements and reconciliations ready
- Know how much debt is attributed to the PPC-include on the 4th quarter report
- Bank accounts can include a sinking, construction and cost of issuance
- Fiscal Court will show an asset for construction or capital asset and any debt incurred at the government-wide level
- Do you still have an active PPC? Did you refinance the bond in the county's name and not the PPC?



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Canteen/Inmate Accounts

- Many of these accounts are maintained by 3rd party vendor software systems. You must be able to run reports from these systems at anytime in order to do reconciliations. These accounts should be reconciled to bank statements on a monthly basis.
- These reports need to be backed up and able to access info at an AS OF date (example 6/30/2021).
- You may need to discuss with the 3rd party vendor how they can assure proper reporting.

DEBT Bonds & Lessee / Lessor Agreements

- List of all debt - go back to your prior audit if you don't know
- Bond/Financing/Lease Purchase Agreements for any new debt
- Terms, conditions, what debt was used for and where funds were deposited
- Bank accounts (statements) for debt activity
- We will need copies of any new debt documents. We do read these.
 - Do you understand the debt instrument your county entered into?



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Sheriff - Tax Collections

- Monthly tax reports that don't agree to amounts paid out without explanation
- Rerunning monthly tax reports that produce different numbers each time
- Tax bills with incorrect rates
- Franchise bills with incorrect rates and supplemental bills not processed properly



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Clerk - Delinquent Taxes

- Monthly Delinquent Tax Reports do not agree to amounts paid out
- Delinquent Taxes continued to be collected in Sheriff office after official turn over to Clerk.



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Sheriff – Clerk Franchise Taxes

- Clerks need to ensure the Franchise Certifications are processed timely so Sheriffs can collect. Clerk and Sheriff need to work together on this.



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Software / Computer Systems

- Make sure you understand your software system thoroughly
 - Be able to run reports for previous timeframes
 - Make sure your data is backed up.
 - What would you do if your laptop crashed right now??



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Great Resources For New Officials

- Auditor's Office
- Department for Local Government
- Your Associations – Judge/Exec, Magistrate, Clerk, Sheriff, Jailer, Treasurer
- KACO
- ADD Districts



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Key Take Aways

- Keep a consistent daily **systematic** process of bookkeeping
- Understand the how and why of reconciliations
 - Make notes on reports for yourself if you had a reconciling issue
- Understand Your Reporting Systems
- Have A Solid Internal Control Environment

We all want clean & efficient audits



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