



What Are Your Auditors Looking For?

Presented by:
Brian Mosier, Kimberly Price
And **Rachela Jenkins**

Presenters

- **Brian Mosier, CPA – Audit Shareholder**
 - BA, double major in Accounting and Economics, Ohio, 2005
 - Certified Public Accountant – Ohio and Michigan
 - First worked for the Auditor of State's Office and joined Clark Schaefer Hackett in 2011
 - Co-Chair of the Government Services Group, Special Review Committee Member for GFOA
- **Kimberly Price, MBA – Audit Senior**
 - BS, Accounting, minor in Finance, Ohio Dominican University, 2013
 - MBA, Ohio Dominican University, 2015
 - SW2 (SCWS) in the United States Navy Reserve from September 2007-September 2015
 - Employed with Clark Schaefer Hackett since August 2013 (interim from December 2012-March 2013)
 - Serving in the Government Services Group on cities, counties, public school districts, and government agencies and the Affordable Housing Group
- **Rachela Jenkins, CPA – Audit Manager**
 - BS in Business, Accounting, Wright State University, 2015
 - Master of Business of Science in Administration, Wright State University, May 2019
 - Certified Public Accountant – Ohio
 - Began employment with Clark Schaefer Hackett's auditing practice in September 2015
 - Serving our Government Services Group clients including cities, counties, higher education entities, public school districts, and government agencies



The Big Picture

- Introduction
- Level of Assurance
- Audit Risks
- Noncompliance and Fraud



The Basis of All Audits

- Risk – as defined by the Merriam-Webster dictionary
 - "someone or something that creates or suggests a hazard"; 'possibility of loss or injury'; 'to expose to hazard' or danger"
- The audit begins with and ends with risk and our overall assessment of the possible risk factors.
 - Example – Employee experience/expertise, new revenue sources, new expenses, new software, new procedures, new services, etc.
- (New) You will receive a 'Planning Communication Letter' detailing the risks identified during the planning stage of the audit.
- How do auditors assess risk?
 - Audit risk (AR) = Control risk (CR) x Detection risk (DR) x Inherent risk (IR)



What Does That Mean?

- There are going to be questions:
 - Walk-throughs of significant transaction classes
 - Documentation of the internal control structure/environment
 - IT controls
 - Fraud inquiries/interviews



Walk Through / Internal Controls

- Cash Receipts
 - What are the entity's revenue sources?
- What are the cash collection points and procedures?
 - Are there documented procedures for cash handling?
 - Are there documented procedures for cash deposits?
 - Are these steps consistently applied and is it verifiable through a sign-off/log sheet?
- Cash Disbursements
 - How are P.O.s tracked/monitored?
 - What is the process for disbursements?
 - Is there a dedicated accounts payable employee?
 - How are new vendor entered?
 - Is there a review prior to check issuance?



Walk Through / Internal Controls (Cont.)

- Charges for Services
 - How are the fees set?
 - Are these set by council? If so, then the ordinance (or Board Resolution) will be needed
 - Did the fees change during the audit period?
 - Where additional services offered?
 - What reports are available to recalculate?
 - i.e., total ambulance/fire runs, total memberships by type, totals by customers served, etc.
 - If a service was terminated during the audit period, then reports/support is still needed for recalculation utilizing the totals.



Walk Through / Internal Controls (Cont.)

- Payroll
 - Who processes and at what frequency?
 - What systems are utilized for payroll payment and time keeping?
 - Who/where/how are employee files maintained?
 - How are pay changes approved?
 - What review procedures are in place?
- Financial Closing
 - Frequency of creation/completion
 - Is there a review of the documents?
 - What documents are generated on a monthly versus annual basis?



Walk Through / Internal Controls (Cont.)

- IT Controls
 - What systems are used for accounting, payroll, timekeeping, banking, IT systems/service, etc.?
 - Who has general access and who has administrative access?
 - Are you able to print out a report showing access rights by user?
 - Are the systems in use internally developed or can you access/change the coding?
 - If invoices are approved digitally, then is there an audit trail showing the sign-off history?
 - Is there a report that shows approval levels/who could approve payment?



How Does This Tie Together?

- Fraud interviews will be completed (in the format of a conversation or a list of pre-determined questions).
 - Responses could trigger additional testing.
- Based upon the walk throughs, internal controls, IT controls, fraud interviews, and changes to funding/revenue sources, your auditor will complete a risk assessment.
 - This will dictate the testing to be completed and will result in additional requests for the audit work.
- Audit risk (AR) = Control risk (CR) x Detection risk (DR) x Inherent risk (IR)
 - Did internal controls work as designed?
 - What is the risk that audit procedures will not detect fraud or an error?
 - How complex is the audit? (i.e., unique funding sources, level 3 investments, compliance requirements)



What Can You Do to Prepare?

- Documentation – if processes are not physically documented, then consider putting together a brief document listing the major elements.
 - Ensure that this is updated as changes in process, system, or employees occur.
 - Review process for segregation of duties
 - For example:
 - The person who records cash receipts should not also complete the bank reconciliations.
 - The person who processes checks should not also enter new vendors (unless there is a review process to act as a counter measure).
- Provide the documents listed on the auditor's request list/PBC list.
- Ensure that staff members are available for audit inquiries/requests the week of audit fieldwork to prevent delays.



PBC Lists

- "Provided by Client" Requests
 - They'll help you and your auditors.
 - If your auditors haven't sent you one – request that they do!
 - Timing – the earlier you provide the requested items, the better.
 - Some auditors may organize the list by stages of the audit (depending on your entity and the type of audit).
 - If you would like this request list in a different format – ask them! Most auditors want to accommodate you while getting the job done.



Policies and Procedures

- Most auditors will request policies that are pertinent to your audit, either to gain an understanding of the entity's operations, or to meet a compliance requirement for your entity to have a certain policy in place.
 - Popular examples of required policies: Investment Policy, Public Records Policy, Records Retention Policy, Uniform Guidance Policy
- In many cases, auditors are going to use any internally developed Policy & Procedure manuals to document controls at your entity. It's helpful for your organization to have these updated, as necessary.
 - Auditors are most likely going to test that certain controls noted in these manuals are being implemented at your entity.
 - Be sure to update any procedural documents for remote work arrangements. Even if documents are now electronic, it's important that you can still show how and when transactions were approved.
 - In many cases, the controls at your entity determine the extent of audit testing required!



Ohio Compliance

- Ohio Compliance Supplements
 - Whether you have an independent firm or the State performing your audit, we will all use the same Compliance Supplement. You can look up exactly what we will be looking for in your audit pertaining to Ohio Compliance.
 - <https://ohioauditor.gov/references/compliancemanuals.html>
 - First, look at the Implementation Guide – this will tell you what is applicable to your entity – "Legal Matrix"



Ohio Compliance (Cont.)

Section	Requirement	IS	NS	IS	NS	IS	NS	IS	NS	IS	NS
3101.02	3101.02-1-01										
3101.02	3101.02-1-02										
3101.02	3101.02-1-03										
3101.02	3101.02-1-04										
3101.02	3101.02-1-05										
3101.02	3101.02-1-06										
3101.02	3101.02-1-07										
3101.02	3101.02-1-08										
3101.02	3101.02-1-09										
3101.02	3101.02-1-10										
3101.02	3101.02-1-11										
3101.02	3101.02-1-12										
3101.02	3101.02-1-13										
3101.02	3101.02-1-14										
3101.02	3101.02-1-15										
3101.02	3101.02-1-16										
3101.02	3101.02-1-17										
3101.02	3101.02-1-18										
3101.02	3101.02-1-19										
3101.02	3101.02-1-20										
3101.02	3101.02-1-21										
3101.02	3101.02-1-22										
3101.02	3101.02-1-23										
3101.02	3101.02-1-24										
3101.02	3101.02-1-25										
3101.02	3101.02-1-26										
3101.02	3101.02-1-27										
3101.02	3101.02-1-28										
3101.02	3101.02-1-29										
3101.02	3101.02-1-30										
3101.02	3101.02-1-31										



Ohio Compliance (Cont.)

- Ohio Compliance Supplements
 - Once you determine what is applicable to your entity, you can download the supplements and see exactly what could be requested during the audit.

Required Audit Procedures – Employment Determination Form

1. Read the government contractor policy for the project.

2. If there is an exemption, complete and file with the auditor of Ohio, with the appropriate supporting evidence for the contract or agreement that is to be exempt under 27344. Attach the exemption certificate issued from the state to the project file if available or file. Additionally, keep this certificate in the bottom of this envelope. If not the contract or agreement, read the original contract provisions that are exempt under the law. Contact 614-646-1212.



Financial Statement Audit

- Materiality
 - Once the auditors receive your financial statements, they're able to set a threshold for line items that we need to test.
- Significant Audit Areas for Most Entities
 - Cash
 - Accounts Receivable
 - Capital Assets
 - Accounts Payable/Accrued Liabilities
 - Long-Term Liabilities
 - Net Position/Equity
 - Revenues and Expenses



Single Audit Testing

- A federal single audit is required when an entity spends more than \$750,000 in federal awards during the year.
 - The first thing your auditors will need to determine whether you need a single audit is your Schedule of Federal Expenditures.
 - Keep track of all federal receipts and expenditures during the year, organized by Assistance Listing Numbers (formerly known as CFDA numbers).
 - Auditors will evaluate your federal expenditures and determine which program they need to test. The earlier this is known in the process, the better.



Single Audit Testing (Cont.)


- Each federal program has different testing requirements
 - Some may be simple, some may be complex
- Auditors will need documentation supporting expenditures reported during the year – this will usually lead to additional sampling and testing of transactions charged to the grant
- Review grant agreements or other resources available to get an understanding of what will be requested for your audit

Audit Findings

- Trivial Errors
- Proposed Audit Adjustments
- Audit Adjustments
- Report Findings: Material Weakness or Significant Deficiency
- Management Letter Comments
- Follow Up

Reports

- Independent Auditor’s Report
- Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance
- Management Letter – when applicable



CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

QUESTIONS?

Brian Mosier, CPA
Audit Shareholder
brian.mosier@csah.com

Kimberly Price, MBA
Audit Senior
kimberly.price@csah.com

Rachela Jenkins, CPA
Audit Manager
rachela.jenkins@csah.com
