

Preparing for the Audit



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Session Outline

- Goals of Proper Preparation
- Better Understanding the Financial Statement Audit
- Audit Opinions / Findings
- Key Areas for Preparation
- Conclusion

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Goals of Proper Preparation

- Meeting management's responsibility
- Reduce time/cost of audit
- Avoid unnecessary audit findings
- Get the auditors in and out as quickly as possible!

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Top Ten Worst Things About Auditors

10. 80% of the audit is done in the remaining 20% of final.
9. The rookie auditor resembles your middle schooler.
8. The senior auditor is not of legal drinking age.
7. The field team's total knowledge of governmental accounting was learned studying for the CPA Exam.
6. Review notes. ("Let's go over this again...")

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Top Ten Worst Things About Auditors

5. The audit room resembles Walmart the day after Christmas.
4. "Do you have a minute?" translates to "block off the rest of your day".
3. More review notes. ("Just one more question on this...")
2. Getting written up for a lost invoice that was given to the auditor in last year's search for unrecorded liabilities.
1. Concurring Partner review notes.

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Top Ten Worst Things About Clients

10. "We'll be ready for you" means the front door will be unlocked.
9. Adequate work space is not synonymous with broom closet.
8. Client wants to book all revenue adjustments but not any expenses.
7. Stealth grants that don't show up until the audit is over.
6. Clients that over-promise and under-deliver.

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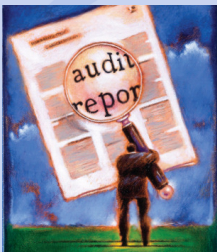
Top Ten Worst Things About Clients

5. A reconciliation is not when the controller gets back together with his/her spouse.
4. The faster they want you to finish, the less they give you.
3. "When are you going to finish?" is not an acceptable response to "Why doesn't this balance?"
2. Anything that is lost is the auditors fault.
1. Former auditors who think they know more about auditing than you do.

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Better Understanding the Financial Statement Audit



- Article written by Stephen J. Gauthier
- Published in the June 2009 edition of *Government Finance Review*

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Nature and Purpose of the Financial Statement Audit

- Role of Management
- Role of Internal Control
- Role of the Governing Body
- Objective of Fair Presentation
- Concept of Reasonable Assurance

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Ten Common Points of Misunderstanding

1. Fair presentation is not equivalent to financial health
2. Financial statement audits are not designed to detect all instances of fraud, abuse, and program noncompliance

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Ten Common Points of Misunderstanding

3. Size is not the sole consideration in judging materiality
4. Quantitative materiality needs to be assessed in relation to individual major funds and to each of the government-wide activity columns

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Ten Common Points of Misunderstanding

5. You cannot assess the reliability of data yet ignore the system that generates the data
6. Auditors must report control weaknesses even if those weaknesses had no effect on the fair presentation of the financial statements

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Ten Common Points of Misunderstanding

7. Auditors are not allowed to perform any task that would compromise their independence
8. Audit fees cannot be the principal factor in selecting an audit firm

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Ten Common Points of Misunderstanding

9. It is in the government's best interest to sign a multi-year audit contract
10. Mandatory auditor rotation may pose special risks in the public sector

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Audit Opinions / Findings

- Financial statement audit
 - Auditors' opinion on F/S
- Yellow book audit (*Government Audit Standards*)
 - Auditors' report on internal controls over financial reporting
- Single audit (A-133)
 - Auditors' report on compliance and internal controls over compliance for major federal programs

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Common Audit Findings

(and how to avoid them)

- Internal controls over preparation of financial statements
- Auditor-identified adjustments
- Segregation of incompatible duties
- Ability to prepare the Schedule of Expenditures of Federal Awards (SEFA)

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Key Areas for Preparation

- Support for the ending balances (not transactional details) of significant assets and liabilities
- Predictive tests (or lists of major components) of significant revenues
- Explanations for significant changes in other revenue/expense accounts

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Key Areas for Preparation

- Interfund transactions clearly balanced or reconciled
- Reasonably adjusted Schedule of Expenditures of Federal Awards (SEFA)
- Other items, as requested by your auditors

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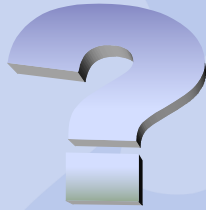
Conclusion

- Proper planning and preparation can make all the difference between a great audit and a not so great audit

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Questions and Answers...



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For More Information

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County Name
Summary of Bank Reconciliations
For the [Year End] Audit

| Account Name | Financial Institution | Bank A/C# | Matures | Balance Per Bank | Outstanding Checks | Deposits in Transit | Transfers in Transit | Other Items | Balance Per Books |
|-----------------------------------|--------------------------|-----------|------------|---------------------|-----------------------|------------------------|-------------------------|----------------|----------------------|
| Deposits | | | | | | | | | |
| Checking account 1 | Fifth Third | xxxxxxxx | N/A | 135,000 | (45,000) | - | 10,000 | - | 100,000 |
| Checking account 2 | Comerica | xxxxxxxx | N/A | 40,000 | (5,000) | 3,000 | (10,000) | - | 28,000 |
| Checking account 3 | Bank One | xxxxxxxx | N/A | 45,000 | (2,900) | - | - | - | 42,100 |
| Savings account 1 | Fifth Third | xxxxxxxx | N/A | 10,000 | - | 100 | - | - | 10,100 |
| Savings account 2 | Comerica | xxxxxxxx | N/A | 15,000 | - | - | - | (200) | 14,800 |
| Savings account 3 | Bank One | xxxxxxxx | N/A | 5,000 | - | - | - | - | 5,000 |
| Total deposits | | | | 250,000 | (52,900) | 3,100 | - | (200) | 200,000 |
| Investments | | | | | | | | | |
| Investment account 1 | Flagstar Bank | xxxxxxxx | xx/xx/xxxx | 400,000 | - | - | - | - | 400,000 |
| Investment account 2 | Huntington National Bank | xxxxxxxx | N/A | 30,000 | - | - | - | - | 30,000 |
| Investment account 3 | Chemical Shoreline | xxxxxxxx | xx/xx/xxxx | 20,000 | - | - | - | - | 20,000 |
| Total investments | | | | 450,000 | - | - | - | - | 450,000 |
| Petty Cash | | | | | | | | | |
| Administration | | | | - | - | - | - | 50 | 50 |
| Treasurer | | | | - | - | - | - | 150 | 150 |
| Clerk | | | | - | - | - | - | 50 | 50 |
| Total petty cash | | | | - | - | - | - | 250 | 250 |
| Total cash and investments | | | | 700,000 | (52,900) | 3,100 | - | 50 | 650,250 |

County Name
Miscellaneous Accounts Receivable
For the [Year End] Audit

| <u>Date</u> | <u>Description</u> | <u>Amount</u> | <u>Received</u> |
|-------------|-----------------------------------|----------------|-----------------|
| 12/31/2009 | HUD Grant | 100,000 | 03/01/2010 |
| 11/30/2009 | XYZ Grant - November expenditures | 15,000 | 02/15/2010 |
| 12/31/2009 | XYZ Grant - December expenditures | 6,000 | |
| 11/30/2009 | Insurance recovery | 14,000 | 01/03/2010 |
| 12/15/2009 | Room rental - ABC Company | <u>3,500</u> | 01/10/2010 |
| | Total accounts receivable | <u>138,500</u> | |

County Name
Inventory
For the [Year End] Audit

| <u>Item Number</u> | <u>Description</u> | <u>Price</u> | <u>Quantity</u> | <u>Total</u> |
|--------------------|--------------------|--------------|-----------------|---------------------|
| 0001 | Copy paper | 20.50 | 250 | 5,125 |
| 0002 | Printer toner | 45.00 | 15 | 675 |
| 0003 | Pencils | 1.50 | 100 | 150 |
| 0004 | Pens | 2.00 | 50 | 100 |
| 0005 | Floppy discs | 1.25 | 75 | 94 |
| 0006 | Batteries | 0.76 | 100 | 76 |
| 0007 | Legal pads | 1.50 | 60 | 90 |
| 0008 | Envelopes | 2.50 | 1,000 | 2,500 |
| 0009 | Post-it notes | 1.25 | 100 | 125 |
| 0010 | Tape | 1.30 | 50 | <u>65</u> |
| | Total inventory | | | <u><u>9,000</u></u> |

County Name
Prepaid Items
For the [Year End] Audit

| <u>Date Paid</u> | <u>Description</u> | <u>Amount Paid</u> | <u>Percent Prepaid</u> | <u>Amount Prepaid</u> |
|------------------|--|------------------------|----------------------------|---------------------------|
| 07/01/2007 | Worker's compensation insurance | 10,000 | 50% | 5,000 |
| 09/15/2007 | Liability insurance | 8,000 | 75% | 6,000 |
| 12/20/2007 | January 2008 health insurance premiums | 15,000 | 100% | <u>15,000</u> |
| | Total prepaid items | | | <u><u>26,000</u></u> |

County Name
 Capital Assets
 For the [Year End] Audit

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|----------------------|----------------|------------------|-------------------|
| Capital assets, not being depreciated: | | | | |
| Land | 100,000 | - | - | 100,000 |
| Construction in progress | 250,000 | 5,000 | (255,000) | - |
| Total capital assets not being depreciated | 350,000 | 5,000 | (255,000) | 100,000 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 50,000 | - | - | 50,000 |
| Buildings | 600,000 | 255,000 | - | 855,000 |
| Equipment | 250,000 | 60,000 | (5,000) | 305,000 |
| Total capital assets being depreciated | 900,000 | 315,000 | (5,000) | 1,210,000 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (20,000) | (5,000) | - | (25,000) |
| Buildings | (260,000) | (75,000) | - | (335,000) |
| Equipment | (110,000) | (10,000) | 5,000 | (115,000) |
| Total accumulated depreciation | (390,000) | (90,000) | 5,000 | (475,000) |
| Total capital assets being depreciated, net | 510,000 | 225,000 | - | 735,000 |
| Capital assets, net | 860,000 | 230,000 | (255,000) | 835,000 |

County Name
Accounts Payable
For the [Year End] Audit

| Check # | Date | Description | Amount Paid | Relates to | |
|---------|----------------|----------------------------|----------------|----------------------|-------|
| | | | | 2007 | 2008 |
| 10001 | 01/04/2008 | Vendor 1 | 6,400 | 6,400 | - |
| 10002 | 01/04/2008 | Vendor 2 | 9,800 | 9,800 | - |
| 10003 | 01/15/2008 | Vendor 3 | 5,700 | 700 | 5,000 |
| 10004 | 01/15/2008 | Vendor 4 | 5,800 | - | 5,800 |
| 10005 | 01/31/2008 | Vendor 5 | 8,900 | 8,900 | - |
| 10006 | 02/05/2008 | Vendor 1 | 5,600 | - | 5,600 |
| 10007 | 02/05/2008 | Vendor 2 | 8,300 | - | 8,300 |
| 10008 | 02/14/2008 | Vendor 6 | 5,700 | 5,700 | - |
| 10009 | 02/14/2008 | Vendor 7 | 9,400 | 100 | 9,300 |
| 10010 | 02/20/2008 | Vendor 8 | 9,700 | - | 9,700 |
| | (not paid yet) | Additional accrual for XYZ | | <u>3,400</u> | |
| | | Total accounts payable | | <u><u>35,000</u></u> | |

County Name
Accrued Liabilities
For the [Year End] Audit

| <u>Date Paid</u> | <u>Description</u> | <u>Amount Paid</u> | <u>Days to Accrue</u> | <u>Amount Accrued</u> |
|------------------|---------------------------------|------------------------|---------------------------|---------------------------|
| 01/07/2008 | Pay period ending 12/29/2007 | 30,000 | 5/5 | 30,000 |
| 01/14/2008 | Pay period ending 01/05/2008 | 31,000 | 3/5 | <u>18,600</u> |
| | Total accrued payroll | | | 48,600 |
| | United Way withholdings payable | | | <u>1,400</u> |
| | Total accrued liabilities | | | <u><u>50,000</u></u> |

County Name
Property Tax Revenue
For the [Year End] Audit

| | General Fund | Special Millage 1 | Special Millage 2 | Special Millage 3 | Total |
|------------------------------------|-----------------|----------------------|----------------------|----------------------|---------|
| Taxable value (TV) | 100,000,000 | 100,000,000 | 100,000,000 | 100,000,000 | |
| Millage | 5.0000 | 1.0000 | 0.8000 | 1.3000 | |
| Projected tax revenue | 500,000 | 100,000 | 80,000 | 130,000 | 810,000 |
| Actual tax revenue (per T/B) | 502,000 | 97,500 | 80,400 | 127,900 | 807,800 |
| Variance (explain, if significant) | (2,000) | 2,500 | (400) | 2,100 | 2,200 |

County Name
 Single Audit - Grant Tie-out
 For the [Year End] Audit

Program Name COPS In School
 CFDA Number 16.710
 Federal Agency U.S. Department of Justice
 Pass-Through Agency n/a
 Pass-Through Number 2006SHWX0412
 Grant Period 11/01/2006-10/31/2007
 Award Amount \$ 125,000
 Percent Federal 98%

| | Total Expenditures | Eligible Expenditures | Amount Received | Receivable (Deferral) |
|-------------------|-----------------------|--------------------------|--------------------|--------------------------|
| 1Q2007 | 8,287 | 8,121 | 8,121 | - |
| 2Q2007 | 12,788 | 12,532 | 12,532 | - |
| 3Q2007 | 13,834 | 13,557 | 13,557 | - |
| 4Q2007 | 12,261 | 12,016 | - | 12,016 |
| Additional amount | 700 | 686 | - | 700 |
| Total | 47,870 | 46,912 | 34,210 | 12,716 |

SEFA

T/B