

# How to Prepare for a Headache-Free Audit

*(Most Common School Audit Findings)*

PRESENTED BY

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# Topics

- Audit Reporting Issued
- Identify some of the most common internal control issues, misstatements, and items of noncompliance so you can watch out for these at your district.
- Tips to prepare for a smooth audit

# Reporting

- Opinion that financial statements are materially accurate:
  - District-wide statements
  - Fund-level statements
  - Notes to the financial statements
  - Each major fund
  - Aggregate remaining fund information
  - Required supplementary information
  - Other supplementary information

# Reporting

- *Government Auditing Standards* Report
  - Report on Internal Control Over Financial Reporting
  - Report on Compliance and Other Matters
- Report on Compliance for Each Major Federal Program
  - Opinion issued on material compliance with grant requirements
  - Report on Internal Control Over Compliance
  - Report on SEFA

# Reporting

- Letter to those charged with governance
  - Extent of audit adjustments
  - Disclosure of difficulties encountered in performing the audit
  - Disclosure of disagreements with management
  - Significant estimates in the financial statements
  - Upcoming accounting pronouncements
  - Identification of significant risks
  - Recommendations for improvement
  - Other required and helpful information

# Most Common Audit Issues

- Food service applications contain errors and/or are not reviewed
  - Best practice – one person enters data, calculates, makes determination; someone else reviews.
  - If no one reviews, there is a greater likelihood of errors going unnoticed
  - Should check the math and ensure the student's determination is correct and matches the status identified on the roster

# Most Common Audit Issues

- Food service fund balance is too high
  - We are all aware of what has happened at districts as a result of COVID-related grants.
  - However, this was an issue even before COVID.
  - If the fund balance is too high, you should have a spend down plan approved by MDE and adhere to it as well as possible.

# Most Common Audit Issues

- Grant revenues do not equal grant expenditures
  - Check this before your auditor does!



# Most Common Audit Issues

- Grant budgets per the accounting system do not match approved grant budgets in the consolidated app
  - Should match at the grant code, function code, object code, and sometimes building code levels.
  - We frequently see even the totals not matching.

# Most Common Audit Issues

- Items charged to grants were not pre-approved, when required.
- Auditor will test grant expenditures and ensure items charged were pre-approved in the budget. Grant auditors will frequently identify items not pre-approved as questioned costs and may choose to recapture these funds.

# Most Common Audit Issues

- Items charged to grants were not classified correctly as to function or object.
- Example – charge was approved in the budget for function 1111, object 3000, but booked to 1113, 5000.
- Auditor will test grant expenditures and ensure items charged were pre-approved in the budget in the codes they were charged to. Grant auditors will frequently identify these as misclassified costs.

# Most Common Audit Issues

- Grant revenues or expenditures were not coded to the appropriate grant codes as specified in the 1022 Manual.
- Make sure to use the manual and code all grants using the codes specified.

# Most Common Audit Issues

- Revenue was recorded for grants that had not been awarded before year end
- Make sure to get your applications/certifications done so you receive the GAN in advance of year end. If not received before year end, cannot book revenue for it!
- This could result in a material misstatement and a material weakness.

# Most Common Audit Issues

- Credits/rebates for expenditures are recorded as revenues instead of netted to the expenditure
  - Most commonly noticed during single audit testing in the food service fund – credits/rebates from Gordon Food Service or similar vendor is recorded as revenue.
  - Make sure to net these items to the expenditure!

# Most Common Audit Issues

- 147c expense is double booked!
  - Some payroll modules will automatically accrue the UAAL as part of the year end retirement expenditure accrual.
  - Sometimes the district will also book a manual adjustment to accrue the expenditure when recognizing the EOY 147c payable.
  - Whichever method you choose – the expenditure should only be accrued once at year end – not as part of the 147c payable AND accrued retirement.
  - This could result in a significant misstatement and produce a significant deficiency or material weakness.

# Most Common Audit Issues

- Procurement policy was not followed
  - Many districts specify lower threshold for bids or price quotations than the state threshold.
    - Must adhere to your own policies as well as the state/federal threshold.
  - You may have a requirement to obtain board approval if expenditure if over a certain amount.
  - You may have specific check signers or dual signatures for disbursements over a certain amount.



# Most Common Audit Issues

- Procurement policy was not followed
  - Documentation to support that you advertised for bids is missing. Also should document rationale for vendor selection and retain the bids received.
  - Documentation to support you obtained informal price quotes is missing
  - Remember if you didn't document it, it didn't happen!

# Most Common Audit Issues

- District didn't reconcile state aid revenue to the state aid status report.
- Your auditor will likely do this – have your reconciliation done to help identify misstatements!

# Most Common Audit Issues

- District didn't reconcile federal grant payments to the GAR.
  - This will help you find errors with receivables, unearned revenue, federal revenue/expense.
- Your auditor will likely do this – have your reconciliation done to help identify misstatements!

# Most Common Audit Issues

- MD&A is missing required analysis
- Among other things, management must analyze:
  - Both fund-level and district-wide statements
  - Significant variances from budget to actual
  - Significant variances between original and final budget
  - Significant changes in fund balances
  - Description of currently known facts, decisions, conditions that are expected to have a significant affect on financial statements
- Focus on the analysis/discussion, not the tables!

# Most Common Audit Issues

- Commodities are not recorded
- Make sure you book both the revenue and expenditure and it ties to the final PAL report!

# Most Common Audit Issues

- Bond refunding entries are recorded at the net effect, and not gross.
- This is a common adjustment requested by clients as a non-attest service. Consider asking your auditor to prep the entries before preliminary work. If you will prepare yourself, be aware the refunding must be recorded at its gross proceeds and gross payment to escrow agent on the bond documents, even though the net effect to the district's books is very small.

# Most Common Audit Issues

- Food service fund transfers are too high
  - Must follow the federal formula. Make sure to use the correct object codes for the components of the calculation (like food costs, for example). Make sure to account for the portion of contracts > \$25,000 and capital outlay.
  - Follow the formula and make sure you don't transfer more than allowed!

# Most Common Audit Issues

- Capital asset schedule errors
  - Additions are not reasonable when comparing to capital outlay expenditures
  - Formula errors in the spreadsheet
  - Assets from the prior year's schedule dropped off, but not disposed of
  - Construction in progress not added to schedule
  - Construction in progress depreciated before being placed into service
  - Third party reports not reviewed for accuracy or additions/disposals not communicated to them
- *If you prepare yourself, highly recommend someone other than the preparer reviews for the above.*
- *Consider having your auditor prepare as a non-attest service!*



# Most Common Audit Issues

- Sinking fund expenditures charged that are either unallowable or are questionable
  - MSBO website has many resources for allowability of charges.
  - Be aware the rules are not the same as a bonded capital project fund
  - If you have a charge that is questionable, reach out to auditor or attorney to document allowability before the audit

# Most Common Audit Issues

- Cash requests for grants are not reviewed by separate individual before being made.
- Several errors have been found that could have been prevented with review, such as:
  - Requested budgeted expenditures rather than actual
  - Requested reimbursement for items that had not yet been paid for (such as a June request for July/August payroll)
  - Requested reimbursement for amount greater than total expenditures
- Make sure one person prepares request and another person reviews to lessen the chance of error. Don't forget to document the review!

# Most Common Audit Issues

- Emergency Connectivity Funds
  - Some clients have vendors that handle the payments from the Federal government on their behalf, so the money never comes to the District.
  - The money was awarded to the district and expended on behalf of the district – so must be shown on your SEFA even though the payments didn't come to you.
  - This could have large implications – material misstatements, wrong major program(s) selected, additional major programs selected, material budget variances, etc.

# Most Common Audit Issues

- Budgeting issues
  - Material budget variances are material noncompliance and would be a significant finding.
  - Budgeting should have appropriate review, just like accounting. Process should not rest with one person
  - Make sure to budget for lease proceeds and related capital outlay

# Most Common Audit Issues

- Budgeting issues (continued)
  - Recommend budget amendments are reviewed in detail to ensure they are attainable and realistic.
  - Compare actual as of today as a % of budget for the year
  - Compare actual this year to actual at this time last year
  - 75%+ of budget is payroll. All employees are known as well as their rates of pay. Is payroll appropriately budgeted? Do reasonableness of benefits – payroll tax rate, retirement rate, health insurance, etc.
  - Recommend someone else in the business office reviews the budget assumptions, spreadsheets for formula/clerical errors, etc.

# Most Common Audit Issues

- Federal asset inventory issues
  - Federal guideline - purchases over \$5,000 financed with federal funds must be tagged and separately identified in an inventory schedule
  - MDE's guidelines are more stringent than the federal ones

# Most Common Audit Issues

- Federal asset inventory issues (continued)
- The inventory must have the following information:
  - Serial number (or other identifying number)
  - Source
  - Federal award identification (the grant award ID, not just “Title I”)
  - Who holds title
  - Acquisition date and cost
  - Percentage of federal participation in the cost
  - Condition
  - Location
  - Disposition data (if applicable)

# Most Common Audit Issues

- Federal asset inventory issues (continued)
  - Inventory must be documented and happen at least once every 2 years.
  - Federal asset inventory includes all federal grants, including anything purchased within the food service fund.
  - Ensure all attributes are present and your listing for each grant is updated each year. Be aware MDE rules are more stringent for items that should be inventoried.



# Most Common Audit Issues

- Revenue recorded on fund level statements when receivables not collected soon enough after year end.
  - Most common – final grant drawdowns slipped through the cracks.
  - “Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period.”
  - Industry norm is 60 days after year end.
  - Unavailable revenue should be booked as a deferred inflow and a receivable on the fund-level statements

# Most Common Audit Issues

- Time documentation is approved in advance
  - Must be after the fact – not possible to know what employees are doing in the future.

# Most Common Audit Issues

- Lack of segregation of duties
  - Most common example is a lack of review
    - Business manager prepares start to finish, no one reviews
      - Examples – fixed asset schedules, year end accruals, grant requests, bank reconciliations, etc.
    - Any time one person does something start to finish without a secondary review, that opens the door for human error.
    - Recommend involving another business office individual to ensure appropriate reviews are happening.

# Most Common Audit Issues

- Lack of segregation of duties
  - EFTs are another common area – staff may have the ability to initiate and approve an EFT.
    - Even if you don't commonly use EFTs, the ability to create them start to finish is a risk.
- Recommend controls are in place to limit this risk
  - Bank may have option to require a secondary approval before payment is sent
  - Bank may have option to send an email to designated recipients whenever an EFT happens
  - Detective control would be a thorough review of bank statements with EFT backup

# Preparing for the Audit

- Review the prior year audit results
  - Resolve internal control issues
  - Don't repeat last year's misstatements
  - Resolve previous noncompliance
  - Ensure opening fund balances match the prior year audited financial statements
- Be aware of the above items that are common in the industry
  - Make sure your district doesn't repeat them!

# Preparing for the Audit

- **Start Early!!!!!!!!!!!!**
- Many requests can be fulfilled before year end or before audit time
- Make sure to get a solid SEFA estimate to the auditors for appropriate major program selection
- Use preliminary fieldwork to the fullest
  - Focus is typically on areas that don't require final numbers
  - Ask auditor about questions you have
  - Resolve issues before audit



# Preparing for the Audit

- **Finish early!!!!**
- Do a little every week – don't save it all for the end
- Suggest delegating areas to the extent you are comfortable
  - Still review and be responsible, but use your staff to your advantage
- Leave yourself a cushion - if items are due to the auditor on 9/15, have them ready 9/10
- You want to be completely ready before fieldwork – not be giving items to the auditor during fieldwork



# Preparing for the Audit

- If you are only partially ready for the audit:
  - It's reasonable to expect the audit will only be partially complete at the end of scheduled fieldwork.
  - At the end of the week, auditors will move on to another district's audit the following week and may not have time to circle back to yours in the near future.
  - There will be inefficiencies and delays.





# Thank you.

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