

BEST PRACTICES FOR COMMON AUDIT FINDINGS

LORRIE BRINSON, CGFO MBA/PA
HILLSBOROUGH COUNTY BOCC

PRESENTATION OUTLINE

- Types of Governmental Audits
- Objectives of a Financial Audit
- Types of Audit Opinions
- Statement on Auditing Standards
 - The Audit Report
- GFOA Best Practices
- Case Studies
- Q&A



TYPES OF GOVERNMENTAL AUDITS

- Financial
 - Single Audit
 - Florida Single Audit
- Attestation Engagement
- Performance



OBJECTIVES OF A FINANCIAL AUDIT

The objective of the financial audit is to render an opinion by independent auditors expressing whether the Financial Statements present fairly the financial position , changes in financial position, and cash flows of the organization.



OTHER TYPES OF GOVERNMENTAL AUDITS

Attestation Engagement

Examinations/procedures that lead to a report & assertion about subject matter that is the responsibility of another party.

Performance

Determination of whether managers are using resources efficiently & effectively in accomplishing organizational goals.



TYPES OF AUDIT OPINIONS

Unmodified

Financial statements present fairly, in all material respects, financial position & changes in position.

Qualified

Financial Statements contain material departure from GAAP or there is a material change between periods in GAAP.



TYPES OF AUDIT OPINIONS

Adverse

Financial statements do not present fairly in conformity with GAAP.

Disclaimer

Auditor unable to obtain sufficient appropriate audit evidence on which to base the opinion. Often due to inability to examine records.



STATEMENT ON AUDITING STANDARDS (SAS)

SAS 114

Communicating with those charged with governance

- Auditor's responsibilities
- Overview of scope & timing of audit
- Significant findings from the audit

SAS 115

Communicating Internal Control Related Matters.

- Control Deficiency
- Significant Deficiency *
- Material Weakness*

**Requires written communication to management and those charged with governance.*



GFOA Best Practices

- Accounting & Financial Reporting
- Budgeting
- Capital Planning
- Debt Management
- Economic Development
- Pension & Benefit Administration
- Procurement
- Risk Assessment
- Treasury & Investment Management



Accounting & Financial Reporting Best Practices

- Auditing
- Accounting
- Internal Controls
- Financial Reporting
- Grants Management

<https://www.gfoa.org/best-practices/accounting-and-financial-reporting>



#FGFOA2023

Accounting & Financial Reporting Best Practices

Auditing

- Audit Committees
- Audit Procurement
- Internal Audit Function
- Multiple Auditors

Accounting

- Meeting and Exceeding Minimum GAAP Financial Reporting Requirements
- Policies and Procedures Documentation
- Capital Assets
- Cost Accounting
- Disaster Recovery
- Grants



Accounting & Financial Reporting Best Practices

Internal Controls

- Internal Control Environment
- Internal Control for Grants
- Internal Control Deficiencies in Audits
- Internal Control Framework
- Internal Control and Management Involvement
- Whistleblowing



Accounting & Financial Reporting Best Practices

Financial Reporting

- Nonauthoritative Considerations In the Preparation of an ACFR
- Website Posting of Financial Documents
- Targets and Deadlines
- Financial Statement Preparation
- Department Reporting
- Non-GAAP Reporting
- Specific Applications

***Advisories*



Accounting & Financial Reporting Best Practices

Grants Management

- Grants Administration
- Internal Control for Grants
- Indirect Cost Allocation
- SEFA Preparation



CASE 1A

Condition

Accruing payables that related to FY20 that were recorded as expenditures in FY21. Accruing revenue on cost reimbursement grants to match qualifying expenditures in FY20.

Best Practice

Meeting and Exceeding Minimum GAAP Financial Reporting Requirements

Maintaining an accounting system adequate to provide all of the data needed to allow for the timely preparation of financial statements for the entire financial reporting entity in conformity with GAAP;

<https://www.gfoa.org/materials/meeting-and-exceeding-minimum-gaap-financial-reporting-requirements>



CASE 1B

Condition

Accruing payables that related to FY20 that were recorded as expenditures in FY21. Accruing revenue on cost reimbursement grants to match qualifying expenditures in FY20.

Best Practice

Meeting and Exceeding Minimum GAAP Financial Reporting Requirements

Hiring, training, developing, and retaining accounting staff with the knowledge and capability to produce GAAP financial statements and other related financial management documents;

Issuing timely financial statements for the entire financial reporting entity in conformity with GAAP as part of an annual comprehensive financial report;

<https://www.gfoa.org/materials/meeting-and-exceeding-minimum-gaap-financial-reporting-requirements>

#FGFOA2023



CASE 2A

Condition

Adjustments to debt payments in the Enterprise funds that were recorded on the modified accrual basis of accounting rather than the full accrual basis of accounting required by GAAP; adjustments to record accrued interest on debt.

Best Practice

Fund Accounting Applications

GFOA recommends establishing clear criteria for determining whether a given fund in its accounting system should be treated as a fund for purposes of external financial reporting.

<https://www.gfoa.org/materials/fund-accounting-applications>

<https://www.gfoa.org/materials/meeting-and-exceeding-minimum-gaap-financial-reporting-requirements>



CASE 2B

Condition

Adjustments to debt payments in the Enterprise funds that were recorded on the modified accrual basis of accounting rather than the full accrual basis of accounting required by GAAP; adjustments to record accrued interest on debt.

Best Practice

Fund Accounting Applications

GFOA recommends that state and local governments organize and operate their accounting systems on a fund basis. The Accounting process includes assembling, analyzing, classifying, and recording financial data be maintained at a high level of detail.

<https://www.gfoa.org/materials/fund-accounting-applications>



CASE 3

Condition

During the audit, several accounts identified which were misstated, including revenue, accounts receivable, expenditure/expenses, accounts payable, debt, capital assets, and equity resulting in material audit adjustments.

Best Practice

Internal Control Deficiencies in Audits

GFOA recommends a periodic process during the year to ensure the ongoing completeness and accuracy of data can aid in identifying and preparing adjustments to limit the number and dollar amounts of adjustments that originate with the auditor. Further, procedures at the end of the period can also help limit auditor-initiated adjustments.

<https://www.gfoa.org/materials/internal-control-deficiencies-in-audits>



CASE 4

Condition

The City provided a schedule of grant expenditures, including unearned revenues and receivables, that did not reconcile to the accounting records and other supporting documentation.

Best Practice

Internal Control for Grants – Control Environment

GFOA recommends ensuring that each area of the grant process (programmatic, budgeting, accounting, etc.) is managed by competent staff who are trained and knowledgeable in their areas of responsibility; Give staff authority and responsibility for their tasks associated with the grant; Hold staff accountable for their tasks; and In larger organizations, create cross-functional teams to support entity-wide grants management.

<https://www.gfoa.org/materials/internal-control-for-grants>

<https://www.gfoa.org/materials/grants-administration>



CASE 5

Condition

The City does not have a written policy that outlines the nature and types of general ledger account reconciliation reviews that should take place on a monthly, quarterly, and year end basis in a centralized location. Resulting in several correcting journal entries proposed by management after the year end financial information was provided to auditors in January.

Best Practice

Policies & Procedures Documentation

GFOA recommends the formal documentation of financial and accounting policies and procedures. A well-designed and properly maintained system of documenting financial and accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. The policies or manuals should be in a searchable electronic format and available on the employee portal or intranet site.

<https://www.gfoa.org/materials/policies-and-procedures-documentation>



CASE 6

Condition

During the audit, approximately \$11M of federal grant expenditures were excluded from the Schedule of Expenditures of Federal Awards and State Financial Assistance (SEFA).

Best Practice

SEFA Preparation

The SEFA reports the amount expended, not the amount received during the fiscal year. GFOA recommends Governments should create a repository (electronic file) of relevant grant information that is accessible to the preparers of the SEFA and those that administer grants.

<https://www.gfoa.org/materials/sefa-preparation>

<https://www.gfoa.org/materials/grants-administration>



CASE 7A

Condition

The new accounting system was not designed and implemented effectively. During the audit it was discovered financial records for most classes of transactions and account balances were not accurately completed on a timely basis. Financial reports were not in place to extract the financial information required and the financial information provided to the auditors required material correction entries to be made in the following accounts:

Cash, Accounts Receivable, Accrued Payroll, and Revenues.

Best Practice

Internal Control Deficiencies

GFOA recommends that a government establish and document a system of financial reporting that is sufficient to provide reasonable assurance that management is able to prepare financial statements in conformity with GAAP. Appropriate criteria for evaluating the adequacy of a government's financial reporting system can be found in Internal Control: Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

<https://www.gfoa.org/materials/internal-control-deficiencies-in-audits>



CASE 7B

Condition

The new accounting system was not designed and implemented effectively. During the audit it was discovered financial records for most classes of transactions and account balances were not accurately completed on a timely basis. Financial reports were not in place to extract the financial information required and the financial information provided to the auditors required material correction entries to be made in the following accounts:

Cash, Accounts Receivable, Accrued Payroll, and Revenues.

Best Practice

Internal Control Deficiencies

GFOA recommends that a periodic process during the year to ensure the ongoing completeness and accuracy of data[6] can aid in identifying and preparing adjustments to limit the number and dollar amounts of adjustments that originate with the auditor. Further, procedures at the end of the period can also help limit auditor-initiated adjustments.

<https://www.gfoa.org/materials/internal-control-deficiencies-in-audits>



REFERENCES

Florida Statutes

<http://www.leg.state.fl.us/statutes/>

Rules of the Auditor General

<https://flauditor.gov/pages/rules.html>

GFOA Best Practices

www.gfoa.org/best-practices

