Agenda

- What is an Audit?
- Who is Audited?
- Why are we Audited?
- Audit vs Examination
- Limitations of an Audit
- Responsibilities of Auditors and Management
- Significant Findings
- Information to Prepare Before the Audit
- Monthly Steps to Prepare for an Audit

Resources

- Georgia Department of Audits & Accounts
- Iowa State Auditor
  - auditor.iowa.gov/
- Minnesota State Auditor
  - www.osa.state.mn.us/
- Missouri State Auditor
  - https://auditor.mo.gov/
What is an Audit?

- **What is an Audit?**
  - An objective examination and evaluation of the financial statements against a specified criteria (Federal Law, State Law, Ordinances)
- **Purpose of an Audit**
  - Make sure the records are a fair and accurate representation of the transactions they claim to represent
- **Who Can Ask for an Audit?**
  - State can require an Audit
  - Council can order an Audit
  - Citizens can petition for an Audit

Who is Audited?

- **Who is Audited?**
  - City Hall
  - Separate Boards, Departments, Committee, Commissions
  - Any organization that is legally authorized to exist because of the City Ordinances
  - Any organization which uses the City's tax id to apply for grants
  - Any Department, Board, Committee that does not give financials can be prosecuted for breaking Open Records Laws.
- **Who is not Audited?**
  - Any organization that has filed their own Articles of Incorporation completely separate from the City [noted, some may be a sub entity of the City even with their own EIN or 501c]
  - Privately owned Library Museum, Fire Association, etc.
  - Do they file their own tax returns?

Why are we Audited?

- **We Have a Fiduciary Responsibility**
  - Public officials and employees are entrusted with public resources
  - Responsible for providing services to the public effectively, efficiently and ethically
  - Responsible for providing reliable, useful and timely information for transparency and accountability for the City’s programs and operations
- **Internal Controls and External Auditors Hold us Accountable to that Responsibility**
  - Public funds can only be spent for public benefit
  - Cannot spend public money on flowers, gifts, meals for birthdays, weddings, funerals, etc.
Audit vs. Exam

- **Exam**
  - Procedures that are less in scope than an audit
  - Review financial activities and compliance with legal requirements
  - Lasts a few days to a week
  - Costs less than an audit
- **Audit**
  - Focus on year end and underlying records vs verifying accounts or AFR
  - As they find red flags, they will keep digging until they uncover the root, or find a solution
  - Last several weeks
  - Can be costly

Both will focus on policies and procedures of how financial information is handled. Both will offer opinions.

Audit Limits

- Auditors are reporting agents, not enforcement agents
  - They are there to make an "opinion"
  - The State, the Council, the Public can call to enforce any non-compliance found in the "opinion"
  - The City, County or State Attorneys enforce the call
- Auditors only look at a “snapshot” of the financials, they do not see everything
  - Errors and Fraud can still exist
- Auditors receive training every year and are encouraged to look for specific things each year
  - Each audit might get different “opinions”
- You can appeal the “opinion”

Responsibilities

- **Auditor’s Responsibility:**
  - “To plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.”
- **Management’s Responsibility:**
  - “To design and implement program and controls to prevent, deter, and detect fraud.”
  - Set the proper tone
  - Create and maintain a culture of honesty and ethics
  - Establish and monitor appropriate controls
  - Have up-to-date policies and procedures
  - Establish and communicate authorization limits
  - Ensure assets are safeguarded at all times (esp. cash)
  - Establish document control (through record retention)
  - Ensure signatures are obtained on required documents
Significant Findings

- Lack of segregation of duties
- Bank to book reconciliations not performed
- Bank and book balances do not agree
- Utility billings, collections and delinquent accounts not reconciled
- Salaries/Wages not approved by City Council
- No general ledger maintained to track transactions and balances
- City Clerk's monthly reports and/or Annual Financial Report do not agree to the City's financial accounting records
- No fund accounting

Significant Findings

- Deficit fund balances
- Balance in TIF fund with no outstanding TIF obligations
- Other TIF errors – in certifications and AURR
- Questionable disbursements
- Significant conflicts of interest
- LOST dollars not properly tracked
- LOST not spent in accordance with ballot

Information to Have Available

- Copy of year-end bank reconciliations, including lists of all outstanding checks, deposits in transit and other reconciliation items.
- Copy of year-end Financial Report and computer generated trial balances by fund.
- List of principal officials as of year-end, their titles and term expiration dates. For the Mayor and Council Members, include home addresses, occupations, and businesses owned.
- List of business transactions, if any between the City and City Officials or employees or the business of any City Official or employee during the year.
- Copy of the City's investment policy/procedures and investment worksheets containing balances and activity applicable to prior fiscal year and year-end.
Information to Have Available

- Copy of interest allocation worksheet for prior fiscal year and year-end, if available.
- Depository resolution(s) effective during prior fiscal year and year-end.
- Copy of any lease purchase agreements, installment purchase agreements, deferred payment contracts or real estate contracts.
- Gross salary publication.
- Reconciliation of payroll per expenditure records to payroll per quarterly reports prepared for entire fiscal year.
- Adopted budget summary, all budget amendment resolutions, and the budget book for fiscal year. Also need a copy of the proof of publication of the proposed budget and the budget amendment(s).

Copies of ordinances setting water, sewer and solid waste rates in effect during fiscal year.

Copy of bond and coupon redemption worksheets for fiscal year, if maintained.

Detail of fund transfers during the year including purpose of transfer.

Listing of legal fees paid during fiscal year.

Summary of deferred compensation activity, if any, during fiscal year, and balances at year-end.

Detailed list or printout of water, solid waste and capital asset additions and deletions. Capital asset additions and deletions could be summarized by type, department, program and funding sources.

List of insurance coverage including surety bonds.

If applicable, accrual work papers and schedules.

Minutes of meetings (up to most recent meetings and proofs of publications for council minutes) for City council as well as any separate Boards or Commissions.

Pre-numbered receipt books.

Revenue and expenditure reports reflecting detail of year-to-date activity by account number.

Bank statements, canceled checks, bank reconciliations and outstanding check listings for fiscal year and month following year-end.

Year-to-date Check Register listing, if available.

Paid bonds and coupons organized by bond issue.

Bonded indebtedness, bond registers and ordinances/ resolutions.
Information to Have Available

- Monthly property tax levy printouts from County Treasurer.
- Payroll registers and payroll check registers.
- Timecards.
- Salary authorizations/Union agreement(s) in effect during fiscal year, if any.
- Quarterly payroll reports (941, State, IPERS).
- Insurance policies.
- Utility billing registers.
- Daily utility payment registers.

Utility Aged Trial Balance printout or listing if available.
- Paid utility stubs.
- Meter reading printouts or listing.
- Utility billing and collection reconciliations and supporting work papers, if available.
- Project files for material construction projects (including contract, change orders, notices of public hearing and bid letting and sales tax refund applications).
- Records/files/reports/grant agreements for the federal and other financial assistance programs applicable for fiscal year.

Best Practices

- Keep an organized filing system
- Close your books every month
- Double check your entries & clean-up your books
- Give Council a complete set of reports
- DO NOT CHANGE A CLOSED PERIOD
- Segregation of Duties
  - Job share with another City Clerk in a neighboring community
  - Divide duties with another employee or officer of the city
  - Mayor gets the mail, opens the checks, marks off who has paid on an Open Invoices report
  - You enter the payments into QB and prepare deposit
  - Maintenance person takes the deposit to the bank
- Live in your Ordinances – Know them in and out
- Keep Learning
Questions?

Call Toll Free: (855) 525-3757
0 – Eddie
2 – Sonya
3 – Melinda

Monday – Friday
8:00 a.m. to 5:00 p.m. CST.

Support is also available beyond these hours by appointment.