

OHIO AUDITOR OF STATE
KEITH FABER

Audit Basics

Ohio Township Association Winter
Conference
February 7, 2020

Stacie Scholl
Central Region, Audit Division


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What We Will Be Covering

Participants will learn about an audit:

- Definition
- Purpose
- Frequency
- Preparation
- Audit process
- Reporting
- Agreed Upon Procedures
- Basic Audit
- Where to find help!




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Audit

- Systematic process
- Objectively obtaining and evaluating evidence regarding assertions about economic actions and events
- Ascertain the degree of correspondence between those assertions and established criteria
- Communicating the results to interested users



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Audit Evidence AU-C 500.04

- The objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

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Assertions

- Occurrence - Transactions or Events that have been recorded or have occurred that pertain to the entity
- Completeness - All transactions and events that should have been recorded have been recorded.
- Accuracy - Amounts and other data relating to recorded transactions and events have been recorded appropriately (i.e. at the proper amount).
- Cutoff - Transactions and events have been recorded in the correct accounting period.
- Classification - Transactions and events have been recorded in the proper accounts.

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Assertions (con't)

- Existence - Assets, liabilities, and equity interests exist
- Rights and obligations - The entity holds or controls the rights to assets, and liabilities are the obligations of the entity
- Completeness - All assets, liabilities, and equity interests that should have been recorded have been recorded
- Valuation and allocation - Assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

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AOS

- The Auditor of State is the constitutional officer responsible to audit more than 5,900 local governments, state agencies, boards & commissions, including colleges and universities
- Some audits are performed by Independent Public Accountants (IPAs) on a contract basis.

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Purpose of an Audit

- **Expressing an independent opinion**
- Add credibility to financial statements
 - Whether the financial statements comply with established criteria
- Management's assertions underlying the information included in the f/s


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Frequency

- Ohio law – biennial– Ohio Rev. Code § 117.11
- Single audit – annual
 - Annual federal expenditures of \$750,000
- Any time
 - Government request
 - Auditor of State's initiative




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When will my audit be done

- Goal is within 9 months of FYE
- Many factors involved
 - Client availability
 - Auditor availability
 - Condition of records




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Where will my audit be done?

- Client Location
- Regional Office
- RWL
- Another audit site
 - County
 - Other Entity




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AOS Regional Office Numbers

Southeast	800-441-1389
East	800-443-9272
Southwest	800-368-7419
Northeast	800-626-2297
Central	800-443-9275
West	800-443-9274
Northwest	800-443-9276




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The Audit Process

- Who does my audit/AUP?
 - AOS Staff
 - IPA Staff
- Who decides if AOS or IPA does my audit?
- How many auditors does it take?




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IPA Audit

- Auditor of State request
- Client request
- Auditor of State approves scope of audit
- Submitted to AOS Center for Audit Excellence (Quality Assurance)




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Preparing for an audit

- Bank Reconciliations
- Maintenance of public records



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What records do the auditors need?

- Bank reconciliations
- Year end financial ledgers
 - UAN
- Bank statements
- Cancelled checks or imaged
- Purchase orders
- Invoices, other supporting documentation
- Minutes
- Governing board info
- Township policies
- Tax settlement sheets

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What records do the auditors need? (continued)

- Duplicate receipt books for all cash collection points
- Receipt support
- Approved rates in force (zoning, cemetery, etc.)
- 1099s & W2s
- Payroll records-timesheets, certifications, approved pay rates, leave records, etc.
- Payroll tax remittance information and forms
- Budgetary files- Appropriations, Certificates of Estimated Resources, etc.
- Debt agreements
- Support for credit card transactions
- Support for health insurance reimbursements


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Quiz

A public entity must be audited

- A) Every year
- B) Every 3rd year
- C) Every 2 years if single audit
- D) Never
- E) Every 2 years



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Cost

- More we do, more it will cost
 - Pull support documentation
 - Organize records
 - <http://www.ohioauditor.gov/publications/auditcosts.pdf>
- AUP and Basic audit engagements cost less than full audits

Note: Auditor independence must be maintained

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Financial Statement Audits

- Plan the audit
- Gather or update information needed
- Understand internal control structure
- Perform substantive tests
- Compliance Testing
- Audit completion
- Reporting

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Planning the Audit


- Pre-audit conference with officials/audit committee
- Information needed for the audit
- Changes from prior year
 - Personnel/systems

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Preaudit Conference

- Staff assignments
- Location/needs
- Estimated fieldwork dates
- Estimated deliverable dates
- Audit issues
- LOA
- Active shooter/evacuation policy



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Gather or update information

- Obtain knowledge of clients operations
- Review prior year working papers
 - Recurring engagement-update
 - New engagement-review predecessor working papers
- Update auditor knowledge
- Identify inherent risk
- Assess fraud risks

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Letter of Arrangement (LOA)

- Purpose to establish an understanding of the client's responsibilities, terms of engagement & fees
 - Confidential information

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Internal Controls

- A process
- Affected by a client's governing board, management and other personnel
- Designed to provide reasonable assurance of the achievement of certain objectives

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Substantive Tests

- Systems derived
- Will focus on significant transaction cycles
 - Intergovernmental Receipts
 - Property Tax Receipts
 - Payroll disbursements
 - Nonpayroll disbursements
 - Charges for Services
 - Permit receipts
 - Debt

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Substantive Tests

- Test of details**
 - Confirmation
 - Inspection
 - Reperformance
 - Vouching
- Analytical Procedures**
 - Year to Year Comparisons
 - Scans

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Ohio Compliance Supplement

- Review Ohio Compliance Supplement!
- <http://www.ohioauditor.gov/references/compliancemanuals.html>
- Become familiar with the requirements and testing procedures so you know what the auditors might ask for.
- Even if the law has been around a long time, changes can occur, and amended guidance and procedures may be included.

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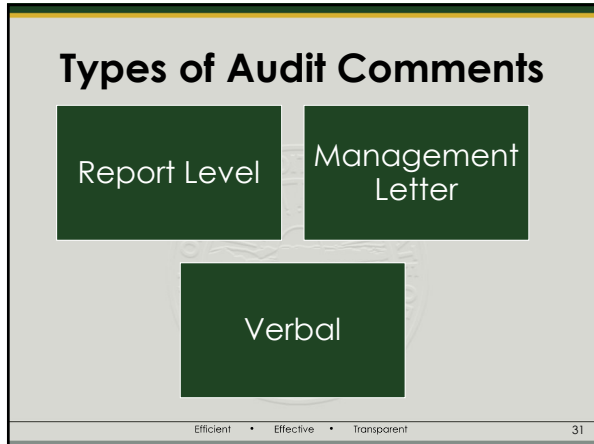
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A screenshot of the Ohio Auditor of State website. The main content area features a news article with a photo of a man in a suit speaking to a group of people. The article title is "Auditor's Office seeking bids for internal performance audit". Below the title, it says "AOS performance audit would analyze the office's use of technology as well as potential efficiencies in data analytics, machine learning, and artificial intelligence." The website header includes "OHIO AUDITOR OF STATE" and "KATHY FARBER". The footer contains "Efficient • Effective • Transparent" and the number "29".

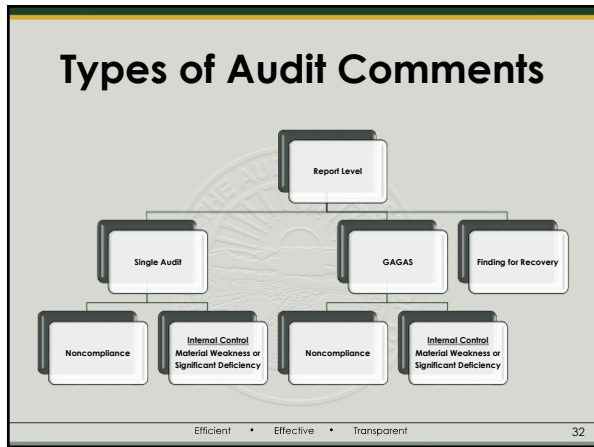
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A screenshot of the Ohio Auditor of State website's "Resources" page. It features a grid of various documents and reports. Categories include "Publications" (Cybercrime Prevention, Keeping Audit Costs Low, etc.), "Reports" (2018 PIR update, Special Report: Reporting Crime on Ohio's Public Companies, etc.), and "Manuals" (Ohio Property and Evidence Room Best Practices Manual, Ohio Compliance Supplement Manuals, etc.). The footer contains "Efficient • Effective • Transparent" and the number "30".

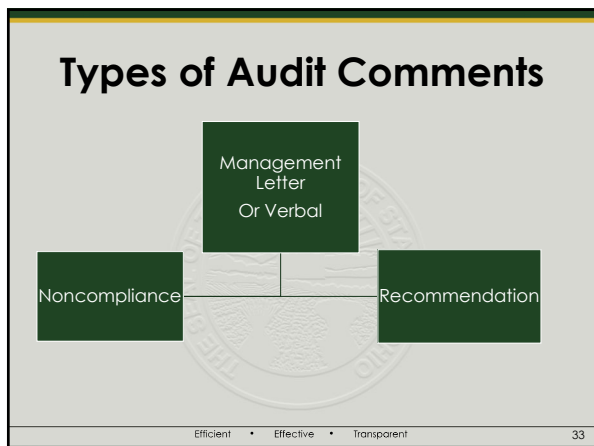
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Post audit Conference

- Meet with officials (Board, Fiscal Officer, Audit Committee) to go over results of audit
- These officials should have results ahead of time to look over
- Obtain Representation Letter

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Representation Letter

- Letter from management
- Gave auditors all records
- All material items disclosed
- Any adjustments not made are immaterial

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Report Issuance

- Report released by the AOS Clerk of the Bureau in Columbus
- Posted to the AOS web site
- Your audit report (and Management Letter) is a public record once released

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Agreed Upon Procedures (AUP)

Ohio Rev. Code § 117.114 establishes criteria for entities to be eligible for an AUP. Townships are a qualifying entity. If a Township qualifies, AUPs can be done for 2 audit cycles and then an audit is completed.

Eligibility Requirements:
http://www.ohioauditor.gov/references/shells/opinions/AUP%20Eligibility%20Checklist_Final_Dec2019.pdf

AUP report shells:
<http://www.ohioauditor.gov/references/agreeduponprocedures.html>

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AUP-example

This report only describes exceptions exceeding \$10.

Cash

1. We recalculated the December 31, 2018 and December 31, 2017 bank reconciliations. We found no exceptions.
2. We agreed the January 1, 2017 beginning fund balances recorded in the Cash Summary by Fund Report to the December 31, 2016 balances in the prior year documentation in the prior year Agreed-Upon Procedures working papers. We found no exceptions. We also agreed the January 1, 2018 beginning fund balances recorded in the Cash Summary by Fund Report to the December 31, 2016 balances in the Cash Summary by Fund Report. We found no exceptions.
3. We agreed the totals per the bank reconciliations to the total of the December 31, 2018 and 2017 fund cash balances reported in the Fund Status Report. The amounts agreed.
4. We confirmed the December 31, 2018 bank account balances with the Township's financial institutions. We found no exceptions. We also agreed the confirmed balances to the amounts appearing in the December 31, 2018 bank reconciliation without exception.
5. We selected a sample (agreed upon) of five reconciling debits (such as outstanding checks) from the December 31, 2018 bank reconciliation:
 - a. We traced each debit to the subsequent January bank statement. We found no exceptions.
 - b. We traced the amounts and dates to the check register, to determine the debits were dated prior to December 31. There were no exceptions.

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What is a Basic Audit?

Audit Bulletins 2012-007, 2015-001, and 2015-007 allow certain public offices meeting specific criteria to choose to have reduced procedures performed, called a basic audit. Criteria that a Township must meet to qualify:


- Less than \$400,000 in expenditures for a 2 year period
- Reconciled & has not declared unauditible
- No findings for recovery related to fraud or theft in prior audit
- Not under investigation by AOS SIU
- Not in fiscal emergency
- Not an initial audit
- Not a component unit of GAAP or OCBOA Cash/Modified Cash Entity
- Filed complete set of financial statements & note disclosures in AOS Hinkle System

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http://www.ohioauditor.gov/publications/aup_basic14.pdf



Auditor Faber's goal is to ensure accountability of tax dollars while allowing the largest portion of them to go toward providing services. The Auditor of State's office offers two options to help lower audit costs for our clients:

1. Basic Audit
Results show an average of 93 percent savings on full audit costs, depending on the entity type and services provided by the entity. To qualify, entities must:

- Have annual disbursements of \$200,000 or less
- Be non-profit and not-for-profit
- Be clean in good standing
- Have a history of clean audits
- Not be required to file GAAP
- Not be required to have an audit for federal funding and/or state purposes or a component Unit

2. Agreed-Upon Procedure Audit (AUP)
AUP's narrow the scope of work to reviewing tax internal controls and performing targeted testing of significant transactions. Results show an average of 48 percent savings on full audit costs, depending on the entity type and services provided by the entity. AUP audits are available for two consecutive 12-month periods if the entity is eligible. To qualify, entities must:


- Have budgeted expenditures of less than \$1 million annually
- Be non-profit and not-for-profit
- Be clean in good standing
- Have a history of clean audits
- Not be required to file GAAP
- Have limited third-party interests
- Have audit fees paid in full
- Not be required to have an audit for federal funding and/or state purposes or a component Unit

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Help?

- Other fiscal officers
- Your legal counsel
- Township Handbook
- UAN Handbook
- Associations
- AOS regional offices
- AOS web site



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Always Remember.....
Auditors are here to help!!

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OHIO AUDITOR OF STATE
KEITH FABER



Central Region, Audit Division
88 E. Broad St.
Columbus, Ohio 43215
Stacie Scholl
Presenter phone: (800) 443-9275



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OHIO AUDITOR OF STATE
KEITH FABER



88 E. Broad St.
Columbus, Ohio 43215
Phone: (800) 282-0370
www.OhioAuditor.gov



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