



Top 10 Audit Findings & How to Prevent Them



Meet the presenter



Bonnie Schwieger

Audit Partner, Abdo

(952)715-3065

Bonnie.Schwieger@abdosolutions.com

abdosolutions.com



Agenda

- Audit Findings Overview
- Common Findings and Prevention
 - *Single Audit*
 - *Material Audit Adjustments*
 - *Internal Controls*



ATTENTION

Disclaimer

All materials have been prepared for general information purposes only. Information provided is not legal advice, is not to be acted on as such, may not be current, and is subject to change without notice. Information presented and provided and your receipt or use of it is not intended to convey or constitute legal advice and is not a substitute for obtaining legal advice from a qualified attorney or advisor. You should not act upon any such information without first seeking qualified professional counsel on your specific matter.

Audit Findings

Overview

Auditing Standards require certain matters be reported in writing. Findings generally relate to the following:

- Financial Statement Balances
- Grant Compliance
- State and Federal Compliance
- Internal Controls over Financial Information and Compliance Requirements



Audit Findings

Material Weakness vs Significant Deficiency

Material Weakness

Is there a reasonable possibility that a misstatement could occur?

And

Could the misstatement be material?

Significant Deficiency

Is the weakness *important enough to merit the attention of those charged with governance*

Audit Findings

Implications and Next Steps

- Reporting Requirements
 - OSA, Federal Oversight, Governing Body
- Response and Action Plan
 - Management Response
 - Correction Action Plans
- Internal Action and Follow-Up



Single Audit

- Uniform Guidance (UG) Policies and Procedures
- Compliance Findings over Federal Programs
- Control Findings over Federal Programs

Reference Guides:

- Compliance Supplement:

www.whitehouse.gov/omb/office-federal-financial-management/current-compliance-supplement/

- Controls over Federal Programs: See Part 6 of the Compliance supplement for Best Practices
- Uniform Guidance:

<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>

UG Policies and Procedures

Overview

Uniform Guidance requires recipients of federal funds to develop and maintain **written** policies and procedures. The following areas are required to be included within the UG policies:

- Determination of Allowable of Costs - §200.302(b)(7)
- Time and Effort - §200.430(a)
- Cash Management of Federal Funds - §200.302(b)(6)
- Conflict of Interest - §200.318(c)(1-2)
- General Procurement Standards - §200.318-.326
- Equipment Management Requirements - §200.313

UG Policies and Procedures

Common Issues

- Awareness of Requirements
 - Uniform guidance requirements have been effective since 2014.
- Maintaining for Updates
- Surprise Single Audits
- Communication between finance and other departments

UG Policies and Procedures

How to Avoid

- Annual Policy Review
 - Review your policy for the most recent UG updates.
 - Ask your auditor to review or request a recent template for adoption.
- Training
 - Review requirements with Staff, including department heads.
- Don't wait until you have a single audit, **adopt UG policies now.**

Compliance Findings over Federal Programs

Overview

- Compliance findings are determined based on specific compliance requirements for each federal program.
- The Compliance Supplement identifies which existing compliance requirements are subject to audit and the auditor must review which have a direct and material effect.

- *Activities allowed or Unallowed*
- *Allowable Costs/Cost Principles*
- *Cash Management*
- *Eligibility*
- *Equipment Real Property Management*
- *Matching, Level of Effort, Earmarking*

- *Procurement Suspension & Debarment*
- *Program Income*
- *Reporting*
- *Subrecipient Monitoring*
- *Special Tests and Provisions*

Compliance Findings over Federal Programs

Example: 20.205 Highway Planning and Construction

- Direct Compliance Requirements
 - *Activities allowed or Unallowed*
 - *Allowable Costs/Cost Principles*
 - *Equipment Real Property Management*
 - *Matching, Level of Effort, Earmarking*
 - *Procurement, Suspension & Debarment*
 - *Subrecipient Monitoring*
 - *Special Tests and Provisions*
- Procurement Compliance Requirement: *For construction contracts, bidding documents must be advertised for at least three weeks, unless a shorter period is justified in the project files*

Compliance Findings over Federal Programs

Common Issues

- Lack of Training or Understanding of Compliance Requirements
- No communication between administration and departments

Compliance Findings over Federal Programs

How to Avoid

- Understand Compliance Requirements
 - Review grant agreement AND the compliance supplement.
 - Department Head Training
 - Implement controls for **KEY** compliance areas.

Control Findings over Federal Programs

Overview

The 2 CFR section 200.303 requires that non-federal entities receiving federal awards **establish and maintain internal control over the federal awards** that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards

Reference:

2024 Compliance Supplement, Part 6 Internal Controls

Control Findings over Federal Programs

Common Issues

- No Controls Exist
 - Compliance with federal programs is not enough, controls are needed to ensure proper compliance.
- Lack of Documentation
- Lack of Training or Understanding of Compliance Requirements

Control Findings over Federal Programs

How to Avoid

- Understand Compliance Requirements
 - Review grant agreement AND the compliance supplement.
 - Gain an understanding of the compliance requirements and ensure there is a compliance **DOER** and a compliance **REVIEWER**.
 - Implement controls for **KEY** compliance areas.
- Document Everything
 - If approvals / reviews are not documented, they didn't happen.

Financial

- Material Audit Adjustment Findings:
 - Cutoff Issues
 - Project Accounting
 - Lease Recognition
 - Revenue and Expense Coding



Material Audit Adjustments

Overview

- The general ledger should include all necessary year-end adjustments and be properly supported by adequate accounting records.
 - Expenses and Improper Cutoff:
 - Expenses should be recognized in the fiscal year in which the liability is incurred, if measurable.
 - Payable balances should be reviewed for both paid and unpaid liabilities.
 - Budget does not always determine expense recognition.
 - Generally, expenses should be reported gross, rather than net, of related reimbursements.
 - Project Accounting
 - Adequate records of project costs and related financing should be maintained and accurately recorded.

Material Audit Adjustments

Common Issues

- Staff Turnover
- New and complex accounting standards
- Communication between finance and other departments
- Lack of account balance review
- Cutoff Issues

Material Audit Adjustments

How to Avoid

- Ask for assistance
 - For any new or complex transactions, ask your auditor to review journal entries or workpapers prior to submitting balances for the audit.
- Department Communication
 - For any major projects or initiatives, get involved with the conversation. Don't wait for department heads to supply information or projects to be finalized.
 - Review minutes for grant applications, project status and any other financial related discussions.
- Review final workpapers and trial balances
 - Ensure all significant balances have supporting documentation.
- Expense Recognition
 - Develop expectations based on known project costs, activities and operating levels. Analyze year end balances for significant changes.

Internal Controls

- Proper Segregation of Duties over Financial Cycles
- Documentation of Approvals

*A deficiency in internal control exists when the **design or operation of a control** does not allow management or employees, in the normal course of performing their assigned functions, **to prevent, or detect and correct, misstatements** on a timely basis.*

Proper Segregation of Duties

Overview

There are four general categories of duties: **authorization, custody, record keeping and reconciliation**. In an ideal system, different employees perform each of these four major functions.

Proper Segregation of Duties

Common Issues

- Staff Turnover
- Insufficient Staff within the Finance Department
- Lack of Understanding by Non-Finance D

Proper Segregation of Duties

How to Avoid

- For Each Financial Area:
 - Map out current controls and responsibilities.
 - Identify where one person has control over multiple duties.
 - Segregate the overlapping duties.
 - Remember to look outside the finance department, if possible.
 - If segregation is not possible, implement compensating controls.
 - Compensating controls generally include additional review and approval.

Documentation of Approvals

Overview

Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.

Controls should include review and approval of major financial transactions, including:

- Payment of Bills
- Payroll Processing
- Bank Reconciliation
- Receipt Collection
- Journal Entries

Documentation of Approvals

Common Issues

- Staff Turnover
- Lack of written policies and procedures and staff training
- Lack of documentation
- Limited segregation of duties

Documentation of Approvals

How to Avoid

- Document Reviews and Approvals
 - If it isn't documented, it didn't happen
- Develop Written Procedures
 - Clearly identify who is responsible for approving financial transactions
- Regularly review if approvals are occurring

Credit Card Support

Overview

- Credit card transactions should be supported with documentation of the original transaction. Transaction support should be collected timely and kept with the appropriate transactions.
- Rewards, rebates or points generated through purchasing programs should be monitored or tracked for appropriate spending and recognition

Credit Card Support

Common Issues

- Lack of Policy Communication and Process
 - Policies should be enforced and communicated to staff regularly. Processes for collecting information should be performed in accordance with the written policy.

Credit Card Support

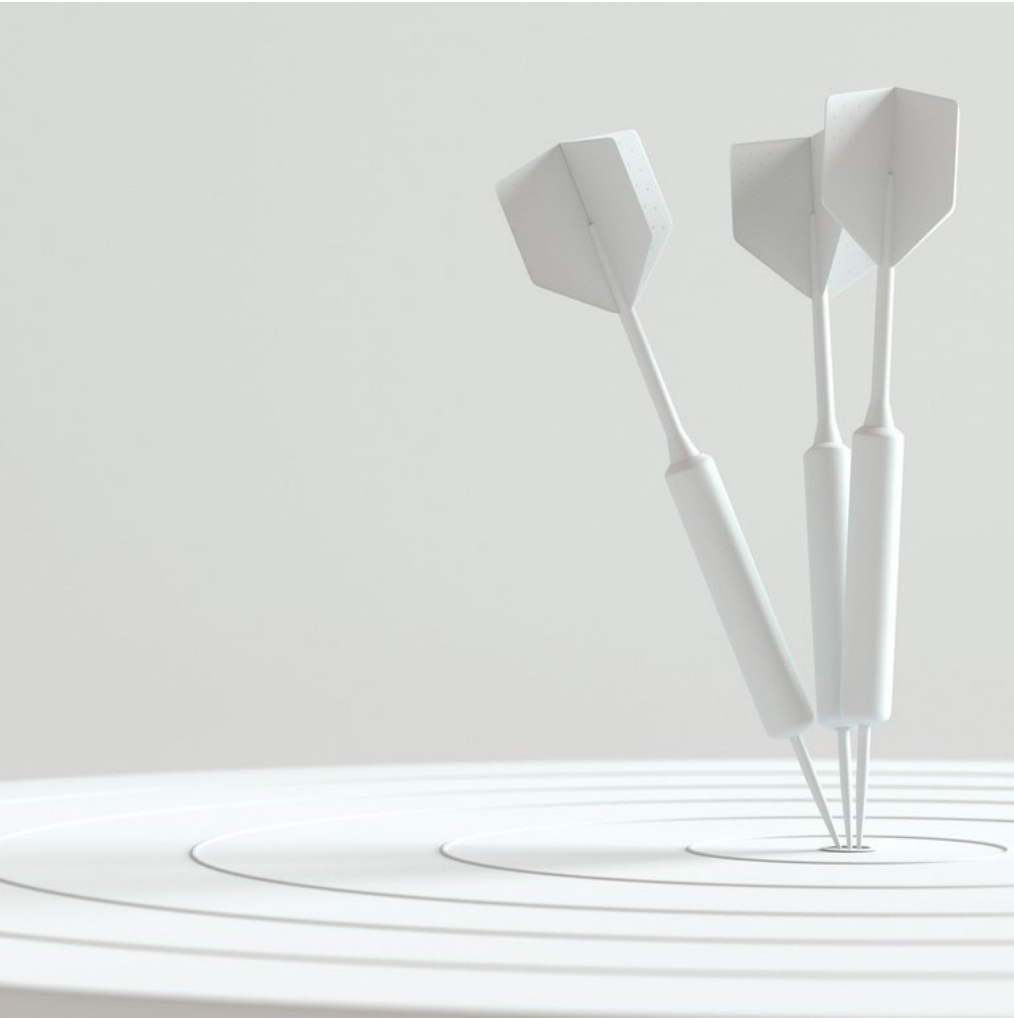
How to Avoid

- Establish a credit card policy and review existing policies.
- Communicate policies with staff on a regular basis.

Bonus Findings!

- Public Purpose
- Policies
 - EFT and Out of State Travel
- Timely Bank Reconciliations
- Open Meeting Laws





Questions?

Please reach out with any questions or comments

Bonnie.Schwieger@abdosolutions.com

