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Auditor of State



Ohio Auditor of State
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Your First Audit

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What We Will Be Covering

Participants will learn about an audit:

- Definition
- Purpose
- Frequency
- Preparation
- Type
- Audit process
- Reporting
- 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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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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Audit frequency

- Ohio law - biennial
- Single audit – annual \$500,000
- 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
- Another audit site
 - County
 - Other Entity



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Preparing for an audit

- Reconciliations
- Annual Report
- Maintain public records
 - Including service organizations



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Typical records needed

- Minutes
- Resolutions
- Bank Reconciliations
- Bank Statements
- Receipts/Pay-ins
- Vouchers/invoice
- Payroll
- Contracts



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Typical records needed

- Copy of filed financials
- Investments policy/depository agreements
- Budgetary
- Bonds
- Grant award letters
- List of officials



Types of reporting

- AUP
- AOS Regulatory Basis
- GAAP Look-a-like
- GAAP



Cost

- More we do, more it will cost you
 - Federal schedule
 - Prepare f/s and/or notes
 - MD&A
 - Pull vouchers
 - Organize records



Financial Statement Filing Requirements

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- AOS Bulletin 2008-001
- Filing requirements, extensions and unauditible declarations
- Amplify and update guidance
 - Filing requirements (Bulletin 2001-012),
 - Extension requests and unauditible declarations (Bulletin 97-015)
 - Incomplete filings (Bulletin 2006-02)



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Filing Deadline

- Cash basis annual financial report
 - Certified by the fiscal officer or board
 - Filed within sixty (60) days after the close of the fiscal year
- Reporting pursuant to GAAP
 - File their reports within one hundred fifty (150) days after the close of the fiscal year
 - CIC and CDC 120 days of their fiscal year end



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Failure to file and late filing

- \$25/day
- \$750 maximum
- May be waived upon filing



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The Audit process

- Who does my audit
 - AOS Staff
 - IPA Staff
- Who decides If AOS or IPA does my audit
- How many auditors does it take



AUDITOR OF STATE'S OFFICE Audit Regions Map

Regional Office Numbers	
Athens	800-441-1389
Canton	800-443-9272
Cincinnati	800-368-7419
Cleveland	800-626-2297
Columbus	800-443-9275
Dayton	800-443-9274
Toledo	800-443-9276
Youngstown	800-443-9271



IPA Audit

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



IPA

- IPA multi year contract
- Bidding process
- Tiers 1-3
 - Bundling for tier 3
 - Evaluation by region
- Award



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



Agreed-Upon Procedures (AUP)

- Client continue to file f/s with AOS each year
- Eligibility checklist attached to Bulletin
- IPA or AOS region completes checklist
- Results indicate a reduction fees



AUP Checklist

- Disbursement amounts < \$1 million each year
- Stability of Fiscal Officer
- No higher risks noted in prior audit
- Other factors increasing risk
- Is the client required to have an audit



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What does AUP entail

- Test fewer transactions
 - Receipts and disbursements
 - Legal compliance
- No opinion over financials
- Auditor must complete checklist
- Any exception over \$10 reported



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AUP Waivers

- Expenditures for one year exceeded \$1 million because of one large purchase
- Not certifying purchase orders was also listed also as a material weakness
- IPA submits to region and region evaluates and if necessary forwards to Columbus



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Audit Process

- Initial audit activity
- Gather or update information
- Understand internal control structure
 - Including services contracted out (SAS 70/SOC)
- Perform substantive tests
- Audit completion
- Reporting



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





Planning the Audit

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

Preaudit Conference

- Staff assignments
- Location/needs
- Estimated fieldwork dates
- Estimated deliverable dates
- Audit issues
- LOA



Letter of Arrangement (LOA)

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



INTERNAL CONTROL



Internal Control Relevance

- Sufficient understanding of controls
 - Plan the audit
 - Determine nature, timing, and extent of tests to perform
- Control risk
 - Client's internal controls will not prevent or detect material misstatements timely



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Assessing & Testing Control Risk

- Affects nature, timing and extent of substantive procedures
 - Max control risk-rely on substantive test
 - Below the maximum-rely partially on controls and substantive test
 - Low-mainly rely on effective operation of internal controls



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Application Controls

- Application controls are activities directed at achieving control objectives for transaction cycles.
 - Can be done by anyone qualified and assigned to do them. Can be automated (edit checks, automated computations and updates of accumulated data, etc.)
 - Are *generally* preventive in nature.



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Monitoring Controls

- Management and supervisory activities that determine whether management's objectives are achieved, including whether application or computer controls are working effectively.
 - Are usually done by management/ governing body) or supervisors.
 - Are *generally* detective in nature



Internal Controls

- Even if you outsource or delegate some processing, you are not absolved from your duties to have controls over that activity
- The best way to accomplish this is to ensure your service organization has a type II SAS 70 audit (SOC 1)



Typical SO's

- Examples of typical SO's:
 - Payroll processing
 - Income tax processing
 - EMS billing services
 - Self-insurance claim processing
 - Investment purchases (transaction not pre-approved)
- Examples that are not SO's:
 - Bank checking account
 - Investment purchases (entity approves each trans.)
 - Purchased insurance policy
 - Purchase of utility services for your office building



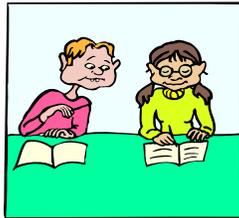


Audit Requirements

- Auditors must evaluate internal controls and apply audit procedures to significant financial activity, even when that activity is processed by a SO.
 - Statement of Auditing Standards Nos. 70 & 92 (SAS 70)
- Failure to monitor SO's could affect your entity's audit reports.
 - The financial activity processed by your SO is part of your accounting system and financial statements.

Substantive test

- Analytic procedures
- Tests of details



Analytic procedures

- SAS 56
 - Planning
 - Final review
- Substantive test
 - Audit efficiencies
 - Estimation of account balance



Scanning Procedures

Revenue	2010	2011	2012
Chg for Service	13,999	24,497	0
Non-operating	0	0	32,879
Total	13,999	24,497	32,879

Adjusted Balance

Revenue	2010	2011	2012	2012 Adjusted
Chg for Service	13,999	24,497	0	32,879
Non-operating	0	0	32,879	0
Total	13,999	24,497	32,879	32,879

Perform substantive tests

- Systems derived
 - Utility billing
 - Payroll
- Non systems derived
 - Debt
 - GAAP accruals



Test of details

- Confirmation
- Inspection
- Reperformance
- Vouching



Compliance-OCS



OCS

- Material laws vs Checklist compliance
- Controls



Budgetary

- Certified Resources
- Appropriations
- Certification



Other Applicable OCS

- Deposits of public money-ORC 9.38
- Public records laws
- Appendices
 - B-Public officers' bonds
 - E-Elected officials compensation
 - F-Legal matrix



Federal Single Audit

- Single audit required
 - If Expenditures > or = \$500,000
- Determining expenditures
- Federal Schedule
- Determining major programs
- Report due date
 - Earlier of 30 days, or
 - 9 months



Audit completion

- Going concern analysis
- Subsequent events review
- Perform final materiality judgment
- Draft report
- Post audit
- Obtain management representations



Post audit Conference

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



Representation Letter

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



REPORT OF INDEPENDENT ACCOUNTANTS

- Management's F/S
- Audit Opinion
- Auditing Standards
- Basis of Accounting



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Compliance and Controls Letter

- Yellow Book
- Two Paragraphs
 - Compliance
 - Controls
 - Finding
- A-133 Letter



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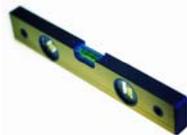


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Levels of reporting comments

- Schedule of Findings
- Management Letter
- Agenda (Verbal)
- Working Paper Level



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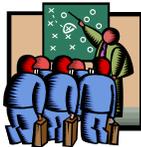
Schedule of Findings

- Noncompliance Citation
 - Includes FFA and FFR
- Significant Deficiency
- Material Weakness



Management Letter

- Immaterial Items
 - Internal control comments
 - Noncompliance issues



Quiz

True or False?

Since an auditor performs my annual audit, the ultimate responsibility for the financial statements rests with the auditor



Report Issuance

- Report released by the Clerk of the Bureau in Columbus
- Posted to the AOS Web site
- Your Audit Report (and Management Letter) is a Public Record once released

Common Citations

- 5705.41d
- 5705.41b
- 5705.39
- 9.38
- 9.24



Common Recommendations

- Accounting for on-behalf activity (Issue II)
- Prepare/Retain supporting documentation
- Policies
 - Travel
 - Cell Phone
 - Credit Cards
 - Equipment
- Minutes lack specifics
 - Board approval of documents
 - Executive Sessions



Help?

- Other fiscal officers
- Handbooks
- Association
- UAN helpline
- AOS regional offices
- Your legal counsel
- AOS web site



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2011 – Best Practices

- Summer 2011
 - Ohio ethics law
 - SkinnyOhio.org
- Winter 2011
 - Performance audit
 - LEAP Fund



2010 – Best Practices

- Fall 2010
 - 60 day school projects
- Summer 2010
 - ARRA
- Fraud Issue 2010
- Spring 2010
 - Do we qualify for AUP?



2009 – Best Practices

- Winter 2009-2010
 - Lesson Learned-Strengthened Practices and Policies in the Aftermath of Fraud
- Fall 2009
 - Performance audits how to measure up when the economy is down
- Spring 2009
 - Open meetings and open records laws



2008 - Best Practices

- Winter 2008/2009
 - The face of fraud-who commits it and why
- Fall 2008
 - Got GAAP
- Spring 2008
 - What is strategic budgeting
- Winter 2008
 - Performance measurement and management



2007- Best Practices

- Winter 2007
 - Disaster Recovery Plans
 - Sample Recovery Plans
- Fall 2007
 - Accountability for public money
 - Cash handling policies



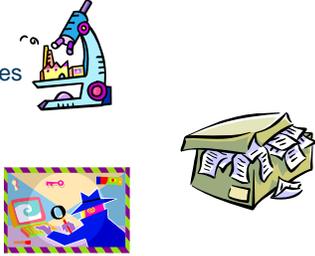
2006 - Best Practices

- Spring & Winter 2006
 - Fraud Indicators & Red Flags
 - Occupational Fraud & Abuse
 - Ethics Policies



2005 - Best Practices

- Spring
 - Audit Committees
 - Public Records
 - Identity Theft



2004 – Best Practices

- Winter
 - Purchasing cards
 - Government owned vehicles
- Spring
 - Cell phones
 - Travel policies



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



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