



What you Need to Know About Audits

- What Types of Audits are Performed on County Commissions?
 - Financial and Compliance Audit Done in Accordance with GAAS and GAGAS and possibly also an A-133 audit
 - Management Discussion and Analysis (RSI).
 - Independent Auditor's Report on the Financial Statements (multiple opinion units).
 - Government-wide Financial Statements.
 - Reconciliation from Fund Level to Government-wide Level.
 - Major Fund Financial Statements (Governmental and Enterprise).
 - Aggregate Discrete Component Units.
 - Remaining Fund Information (nonmajor funds, pension funds, agency funds).
 - Notes to the Financial Statements.
 - Other Required Supplementary Information (some pension and budgetary schedules and disclosures).
 - Supplementary Information (budgetary schedules).
 - Schedule of Expenditures of Federal Awards (if A-133).
 - Auditors Report on Compliance with Laws Regulations and Internal Control.
 - Auditors Report on Compliance for A-133 (if Applicable).
 - Schedule of Comments (Internal Control and Compliance Findings).
 - Management Letter (not published and not sent to those charged with governance).




What you Need to Know About Audits

- What is a Component Unit? Sources GASB 14, 34, 39, and 61)
 - Legally Separate Organization (Sued and be sued; acquire property in its own name; issue debt.
 - Criterion to Establish Financial Accountability
 - Approval of Budget.
 - Levy Taxes (fiscal dependency).
 - Approval of Debt Issuances (fiscal dependency).
 - Appointment of Board Members.
 - Removal of Board Members (impose will).
 - Modify or approve budget (impose will).
 - Modify or approve fee amounts (impose will).
 - Modify decisions of the Board (impose will).
 - The ability to affect day to day operations (impose will).
 - Primary Government is legally entitled or otherwise can access resources. (financial benefit/burden).
 - Primary Government is legally obligated or has otherwise assumed to finance the organizations in some fashion. (financial benefit/burden).
 - Obligated in some fashion for the debt of an organization (includes the authorization of the government to finance debt service shortages) (financial benefit/burden).
 - GASB 61 will expand the blended component units reporting (from discrete).




What you Need to Know About Audits

- Why Should County Commissions be Concerned? (letter 5/13/2013)
 - Adverse Opinion on Component units.
 - Why is an audit opinion important?
 - Audit Scheduling Process.
 - Separate Audit Reports.
 - Condition of the Financial Records.
 - Audit Fee complaints.
 - Group audit standards effective FYE 6/30/13.
 - Independence Standards.
 - Fraud




West Virginia Component Units

Description	Type	Reporting
Building Commissions	DCU,BCU	Combined
Fire Service Boards	DCU, JV,JG	Combined
Farmland Protection	DCU	Combined
Animal Shelters	DCU	Combined
Parks and Recreation Boards	DCU	Combined
Alports	DCU, JV,JG	Separately



Others to Consider


- Community Enhancement District; Landmark Commissions; Beautification Councils.
- It's the County Commission's financial statement preparer's responsibility to assess these potential component units and properly reflect them in the financial statement of the County.



A-133 Audit


A-133 Audits

- An audit of the SEFA.
- Compliance with major federal programs.
- Necessary when entities expend over \$500,000 of federal funds.
- 9 month deadline for issuance.
- Section 1512 ARRA reporting requirements.




Plan for 2014 FYE Audits

- Identification of A-133 Audits.
- Financial Statement submission to LGS by 9/30/2014.
- OCBOA option? What do the users want to see?
- The walls are closing in!
 - Shorter audit deadlines.
 - Abundance of GASB Statements. We are on Statement #70.
 - Enhanced Yellow Book requirements for "non-audit" services (i.e. drafting financial statements).
 - Skills, Knowledge and Experience criteria for clients.
 - Group audit standards.



Governmental Accounting in the Future

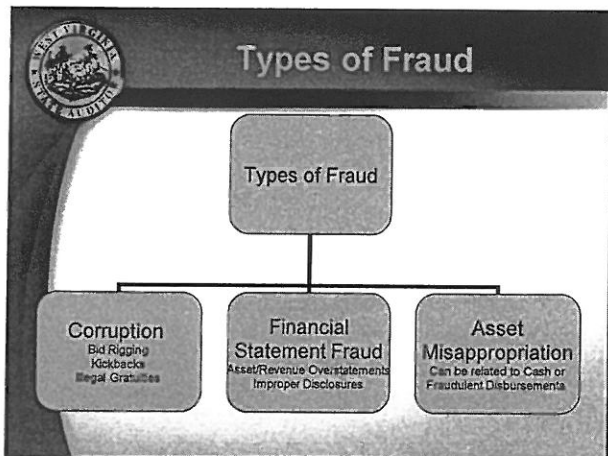
- Forming a Committee to explore regulatory accounting options for local governments in the State of WV.
 - CID
 - Local Government Services
 - Independent Certified Public Accountants
 - Compilers
 - Local Government Representatives
 - Users (bond people)
- What are other States doing? (NASACT)
- CID has already granted Class IV municipalities the **option** of preparing cash basis financial statements for governmental funds only (effective FYE 6/30/13).
- Also consider compliance audits for smaller entities with periodic financial audits option.



Fraud in Government A Growing Problem

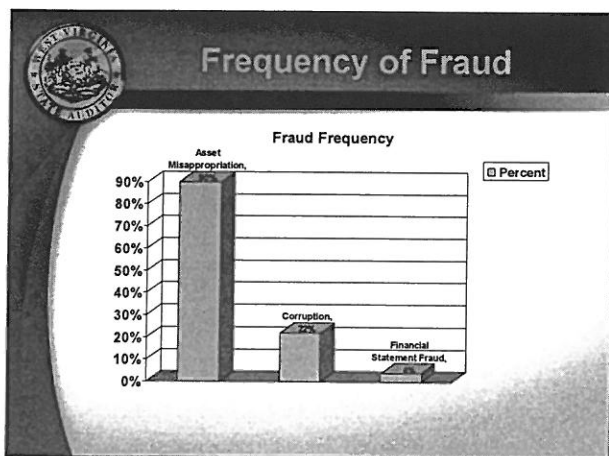
Overview of the Chief Inspector Division

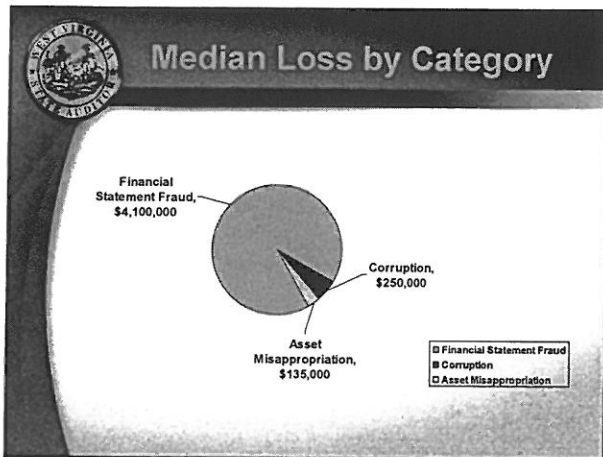
- Audit local BOEs, Municipalities, County Commissions, Boards of Health and other small government agencies.
- Due to the increased volume of fraudulent activity, a separate section was formed to perform the following functions:
 - (1) Perform "agreed upon procedures" on entities with the local Purchasing Card.
 - (2) Perform "problematic" audits.
 - (3) Respond **immediately** to fraud in local governments.

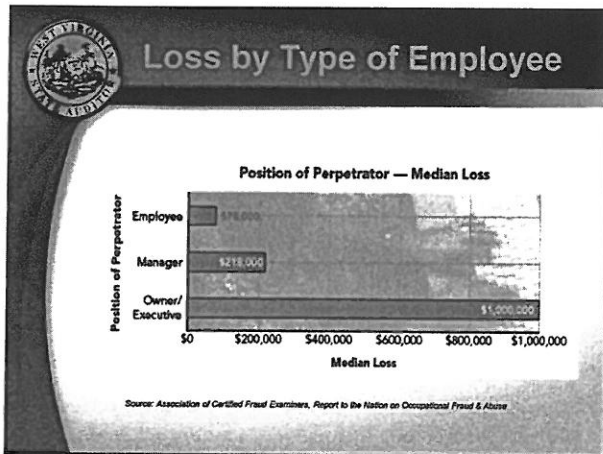


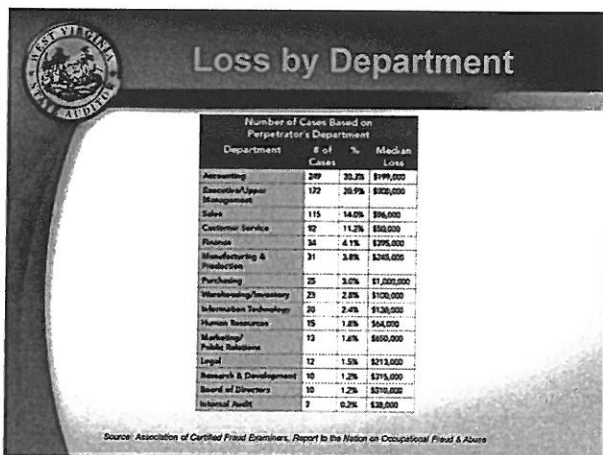
Asset Misappropriation

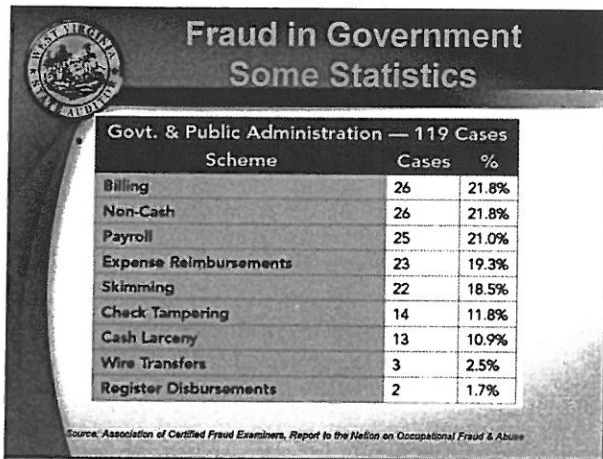
- Skimming
- Non receipted revenue/substitution of checks for cash.
- Lapping Schemes
- Write Off Schemes
- Shell Companies
- Personal Purchases (i.e. Credit or Purchasing Cards).
- Payroll Schemes (extra payrolls, falsified wages, ghost employees).
- Expense reimbursement schemes (duplicate payments, fictitious expenses).
- Check tampering (altered payee, forged endorsement, concealed checks).

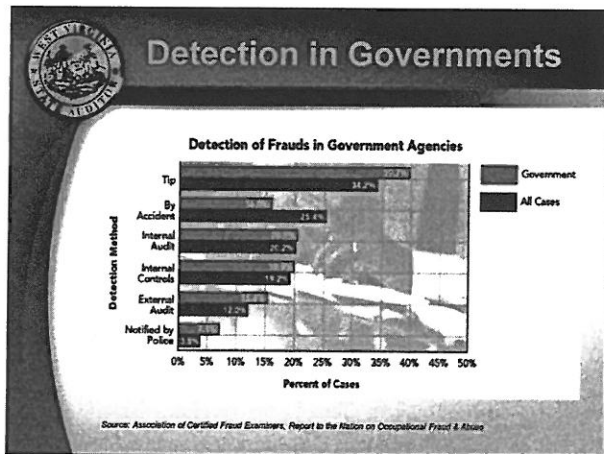


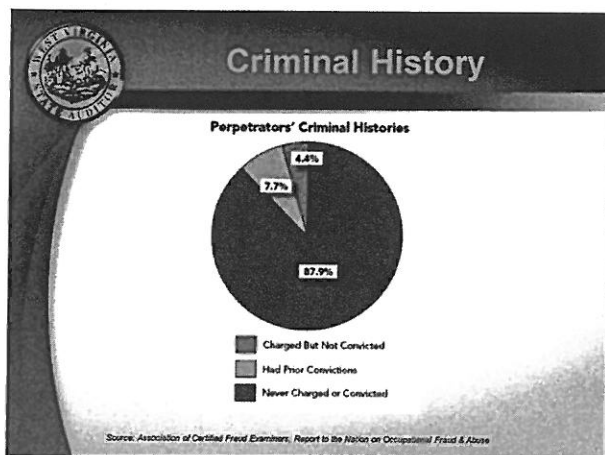















Pressure

- Personal Vices – Drug addiction, GAMBLING.
- Sudden Changes in Lifestyle due to the economy, the loss of financial provider.


Opportunity

- Who is watching the store?
- Inadequate internal controls due to the size of the entity.
- Lack of organizational integrity.
- Test the system. Start small and if nobody notices then expand operations.
- It can be ANYONE!




Signs of a Fraudster

- RED Flags
 - Living beyond their means.
 - Conflicting job responsibilities.
 - Organization cannot meet obligations (usually starts with payroll).
 - Excessive Gambling.
 - Avoidance of an audit.
 - Missing /Lost Records.
 - Refusal to take Sick/Annual Leave.
 - Overriding Internal Controls.
 - Cashing personal checks/can't reconcile cash drawer.
 - Large # of account write offs.
 - Bank accounts not reconciled.
 - Charges without shipping documents.




Signs of a Fraudster

- RED Flags
 - Companies that are not normal routine vendors of the entity.
 - Payments (*outside of payroll*) to employees for reimbursements.
 - Large amounts of credit card transactions with a lack of adequate control.
 - Large time lapses from the time of collection to the ultimate deposit of revenue.
 - Purchases that bypass normal procedures such as approved purchase orders.
 - Unmonitored overtime.
 - Complaints about nonpayment notices from customers.
 - Unauthorized bank accounts.




Fraud Engagements

- Meet with Officials and ask A LOT of questions.
- Identify areas of concern.
- Meet with Prosecutor/Law Enforcement to coordinate activity and objectives.
- Issue an *Agreed-Upon Procedures* letter to the "client" that clearly delineates procedures to be performed for a specified period of time.
- Statutory Authority:
 - WV Code §6-9-7 authorizes the Chief Inspector to examine into all of the fiscal affairs of any local government and issue subpoenas.




Fraud Engagements

- Perform procedures utilizing "forensic accounting" techniques.
- Forensic Accounting is defined as the application of specialized accounting, auditing, finance, economics and statistics (as well as skills in various aspects of law, research and investigative methods) in the collection, analyses and communication of evidential matters and related findings.
- Staff – Accredited Fraud Investigation Classes and Certification and Certified Fraud Examiners.
 - Understanding the rules of evidence.
 - Quantitative Tools such as data mining.
 - Computer examination techniques.



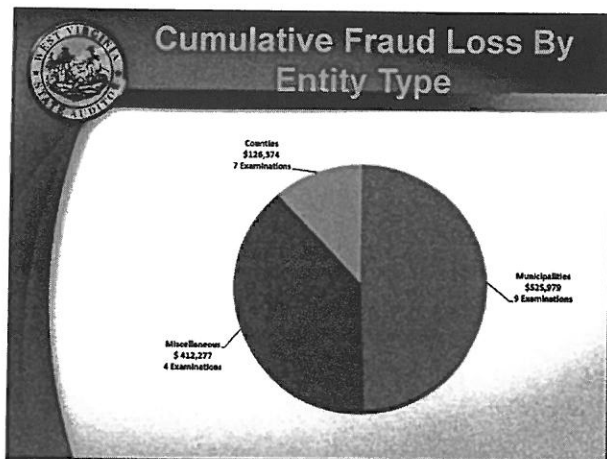
Fraud Engagements

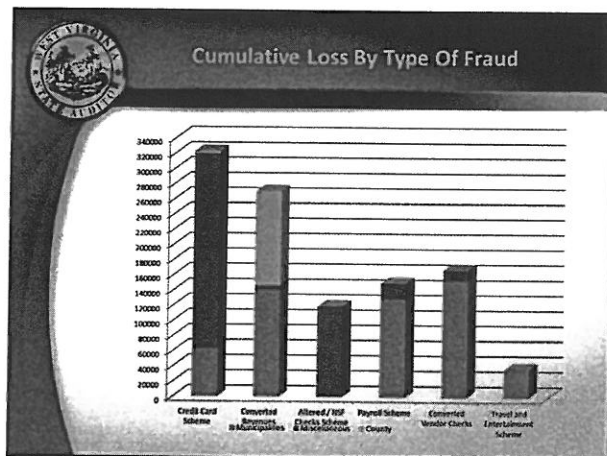
- Fraud Theory Approach - scientific method of:
 - Analyzing the data.
 - Creating a hypothesis.
 - Testing the hypothesis.
 - Refining and amending the hypothesis.
 - Accepting or rejecting the hypothesis.
- Brainstorming.



Fraud Engagements

- Meetings
 - Length of Service
 - Insurance/Bonded
- Computer
- Define objectives/ongoing and dynamic process.
- Subpoenas/Search Warrants (photocopy of deposits).
- FEIN # to local banks.
- Gather Information.
- Prepare a Report.






Anatomy of a Report

Independent Accountant's Report on Applying Agreed Upon Procedures.


- Procedures Applied and Conclusions. General description. Summary of Shortage.
- Schedules – Vary by the type of work performed. Details the procedures and conclusions and provides support for the conclusions.
- Schedule of Comments – Provides internal control/ compliance findings and recommendations related to the work performed.
- Frequently this report can be used as a basis for insurance reimbursement (if available).



Examples

Case #1 – What a Great Credit Union


An employee in a small town was responsible for performing payroll functions which included calculating payroll, filling out tax forms and remittances and issuing checks to agencies. Another person in the office was suspicious of her but lacked the expertise to verify payroll transactions. It was determined that she was paying herself the proper rate of pay throughout the time period. The auditor increased the scope of testing in payroll since there was not adequate oversight and found that she was regularly depositing amounts to the employees credit union accounts....however....her credit union account was receiving much more than was withheld from her pay. Over time, it gradually increased to the point the town could not meet legitimate obligations. It was determined she deposited over \$10,000 extra into her credit union account and also paid over \$7,000 in AFLAC premiums to her account.



Examples

Case #2 – I Need Confetti


A long time employee of a small town embezzled over \$30,000 over a 4 year period. The culprit collected and posted water/sewerage revenue. Cash payments posted to customers accounts agreed with deposit. However, the individual was "holding" stubs and checks from collections and substituting them for cash collections. She would then pocket the cash and "adjust" the check paying customer accounts and subsequently destroy the illegitimate posting journal. She started to get lazy and forgot to adjust peoples accounts. Customers were complaining that they had paid their bill and not been credited. A co-worker was suspicious and her suspicions were confirmed when she brought home the contents from the shredder at the office so her daughter could use it as confetti. They noticed bits of paper that looked like utility stubs and painstakingly "reconstructed" the stub. The auditor contacted the computer software vendor who assisted in reconstructing the adjustment journal. Confirmations were sent to customers and the adjustments were determined to be fraudulent.



Examples

Case #3 – That's Not a Normal Vendor


An young employee that was a manger in the accounting department of a larger City abused a city issued credit card. He was dating a woman at a "gentlemen's club" and she was running the credit card through at the rate of \$500 a night for "services". They were pocketing the cash. He was also using the card to pay his car payment and purchase electronics. The City caught him through their normal control activities within 60 days of the activity taking place. In that time he had charged over \$7,000 in fraudulent transactions.



Examples

Illegitimate Petty Cash	\$18,176
Excess Payroll	\$21,641
Fraudulent Expense Reimbursements	\$16,861
Cell Phone Bills	\$2,021
Credit Cards	\$19,750
Pay Pal Account	\$3,190
Total	\$81,639 (27% of Budget)


To make matters worse, the Director stopped paying the payroll withholdings....AND stopped paying the insurance company that she was bonded with so some cash could be freed up!



Examples

Case #4 - Two is Company


2 Employees in a medium size city conspired to steal over \$210,000 from the Town over a 2 year period. The manager and clerk wrote checks to the Town's General Fund; took the checks to the bank; endorsed the back and pocketed the cash. They also received 38 paychecks in one of the fiscal years instead of the customary 26. They paid sick leave to themselves for time they had not accumulated. Travel expenses were paid from multiple sources including, checks to the general fund, checks to themselves, and Purchasing Card transactions. The Purchasing Card was used for excessive meal and gasoline charges even though the employee was provided a city car and gas and all the meals were within the City limits.



Examples

Case #5 - Crime Can Be a Mental Burden


An employee of a municipal court in a large City was nervous about a pending audit of the municipal court system by external auditors. He knocked on the window of the room in which the auditors were working and motioned for one of them to come outside. He immediately confessed to stealing money and the auditor walked him 2 floors up to the Mayor who in turn walked him 1 floor up to the police department. It was subsequently determined he stole over \$40,000.



Examples

Case # 6 – The Town That Had No Cash


A very small town in southern part of State had over \$30,000 stolen over a 2 year period. The Clerk was removing most of the cash from the general fund deposits and replacing it with receipts for other funds. The auditors obtained photocopies of the deposits and were able to ascertain the checks were never receipted and the source documents were destroyed.



Examples

Case #7 – The Business and Occupation Tax Festival

A clerk for a small city opened an account for a festival that was held in the town. She collected "donations" for the festival. Then she decided she would begin depositing business and occupation tax revenue into the account as well. The disbursements from the account were mainly written to her and she made off with \$24,000 over a 14 month period.



THE END

Questions?

Contact:
Stuart Stickel
 304-558-2540 ext. 2413
stuart.stickel@wvsao.gov


- I Am Going... 

Table 4
AUDITS OF LOCAL GOVERNMENTS
(Part II: Q4-7)

State/Agency	Audit local governments?	Types of Local Governments Audited						What audit standards are used?	Is GAAP required for local government financial statements?
		Cities	Counties	NPOs/For-Profits Receiving State/Federal Awards	Towns & Villages	School Districts	Other		
Alabama Department of Examiners of Public Accounts	Yes		X			X		GAAS, GAGAS	No
Alaska Division of Legislative Audit	No								
Arizona Office of the Auditor General	Yes		X				Community college districts	GAAS, GAGAS	Yes
Arkansas Division of Legislative Audit	Yes	X	X		X	X	Prosecuting attorneys	GAAS, GAGAS	No, regulatory basis per Arkansas Code
California Bureau of State Audits	Yes	X	X	X		X		GAGAS	Yes
Colorado Office of the State Auditor	No								Housing authorities are not required to prepare financial statements in accordance with GAAP.
Connecticut Office of the Auditors of Public Accounts	No							GAGAS	Yes
Delaware Office of the Auditor of Accounts	Yes	X			X	X	The school districts are part of primary government to the state and are audited in the state's CAFR and single audit. Additional school district audits are performed on various areas of operation. Municipal grants are also audited. Typically, local governments obtain their own financial and single audit.	GAGAS	Yes, generally they do follow GAAP although there is no state requirement to follow GAAP.
Florida Office of the Auditor General	Yes					X	Cities, towns, etc., as directed by the Legislative Auditing Committee or through citizen petition	GAAS, GAGAS	Yes
Georgia Department of Audits and Accounts	Yes					X	We review the financial audit reports of local governments, but do not participate in the audit of such governments.	GAGAS	Yes
Guam Office of the Public Auditor	Yes	X	X		X	X		GAGAS	Yes
Hawaii Office of the Auditor	No								Yes
Idaho Office of the Legislative Audits	No								No
Illinois Office of the Auditor General	Yes						As directed by the General Assembly	GAAS, GAGAS	By statute, GAAP is to be followed to the extent possible.
Indiana State Board of Accounts	Yes	X	X	X	X	X	Special districts, hospitals, libraries, universities, utilities, various other special government districts. In certain cases we do audits of not-for-profits that receive government funds from state, local, and the federal government.	GAAS, GAGAS (GAGAS is generally the standard for the single audits only.)	No

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Iowa Office of the Auditor of State	Yes	X	X		X	X	GAAS, GAGAS	Yes for counties, schools, hospitals, community colleges, area education agencies and merged areas. No for cities and towns and entities organized under Chapter 28E.
Kansas Legislative Division of Post Audit	No							
Kentucky Office of the Auditor of Public Accounts	Yes		X				GAAS, GAGAS	No
Louisiana Legislative Auditor	No						GAGAS; the engagement contracts for CPA firms performing audits of local governments in Louisiana are approved by the legislative auditor. These contracts require financial statements to be prepared in accordance with GAAP.	Yes. The engagement contracts for CPA firms performing audits of local governments in Louisiana are approved by the legislative auditor. These contracts require financial statements to be prepared in accordance with GAAP.
Maine Department of Audit	No						GAAS	Yes
Maryland Office of Legislative Audits	Yes					X	GAGAS	Yes
Massachusetts Office of the Auditor of the Commonwealth	Yes	X	X	X	X	X	GAAS, GAGAS	Yes
Michigan Office of the Auditor General	No							

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Minnesota Office of the Legislative Auditor	No								
Minnesota Office of the State Auditor	Yes	X	X	X	X	X	Regional organizations and local retirement funds	GAGAS	Most entities are required to use the GAAP basis. Very small entities use a non-GAAP basis.
Mississippi Office of the State Auditor	Yes		X			X	Community colleges	GAAS, GAGAS	Yes
Missouri Office of the State Auditor	Yes		X				Other political subdivisions such as cities and special districts (including school districts) upon petition by a subdivision's voters. Also, special audits of school districts (not annual financial audits) under separate statutory authority.	GAGAS	No
Montana Legislative Audit Division	No								
Nebraska Office of the Auditor of Public Accounts	Yes		X	X			County courts	GAAS, GAGAS	No
Nevada Legislative Counsel Bureau, Audit Division	Yes					X		GAGAS	
New Hampshire Office of Legislative Budget Assistant	No								
New Jersey Office of the State Auditor	Yes					X		GAGAS	School districts and public authorities follow GAAP; cities and counties follow an other comprehensive basis of accounting (OCBOA) as required by the Department of Community Affairs, Division of Local Government Services.
New Jersey Office of the State Comptroller	Yes	X	X	X	X	X	State and local authorities	GAAS, GAGAS (performance audits, GAGAS only)	Of the nearly 1,900 local governments and authorities, about 1,400 use GAAP. The remaining 500 municipalities use state-issued accounting guidance.
New Mexico Office of the State Auditor	Yes	X	X		X	X	Special districts	GAAS, GAGAS	Yes
New York Office of the State Comptroller	Yes	X	X		X	X	Industrial development authorities, off-track betting corps., libraries, fire districts, fire companies, boards of cooperative education services (BOCES), community colleges, and charter schools.	GAGAS	The city of New York is required by law to prepare GAAP financial statements. School districts and boards of cooperative education services (BOCES) are required by the state Education Department to prepare GAAP financial statements. All other local governments are encouraged to do so, but are not required.

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North Carolina Office of the State Auditor	No								
North Dakota Office of the State Auditor	Yes	X	X		X	X		GAGAS	No. Counties are required to prepare financial statements. Other local governments are not required to prepare their own financial statements.
Ohio Office of the Auditor of State	Yes	X	X		X	X	By statute, we audit all 5,000 local governments (including 300+ community/charter schools) plus a small number of nonprofit agencies specified by statute, such as community improvement corporations. However, we generally do not otherwise audit all nonprofit organizations receiving state or federal assistance.	GAAS, GAGAS	Cities, counties, school districts, charter (i.e., community) schools must follow GAAP. Remaining governments (townships, villages, special districts, etc.) follow cash basis.
Oklahoma Office of the State Auditor and Inspector	Yes		X				Emergency medical service districts	GAAS, GAGAS	No. Counties may choose GAAP or regulatory basis.
Oregon Division of Audits	No							GAAS, GAGAS	Yes
Pennsylvania Department of the Auditor General	Yes	X	X	X	X	X	The department audits state aid appropriated to local education agencies, municipal pension funds and volunteer (non-profit) fire relief associations. Also audited are state liquid fuel tax proceeds allocated to local and county governments and fees remitted to the state by county agencies.	GAGAS	No
Puerto Rico Office of the Comptroller	Yes	X		X	X	X	Municipal consortiums	Our own standards. The Office of the Comptroller issues its own set of audit norms. We use the Yellow Book and SASs as fundamental for our standards.	Yes
Rhode Island ¹ Office of the Auditor General									
South Carolina Legislative Audit Council	No								
South Carolina Office of the State Auditor	No								
South Dakota Department of Legislative Audit	Yes	X	X		X	X	Special districts	GAGAS	No
Tennessee Office of the Comptroller of the Treasury	Yes	X	X	X		X	Utility districts	GAGAS	Yes
Texas Office of the State Auditor	Yes			X			Water districts, metropolitan transit authorities, river authorities, any entity that receives state funds	GAAS, GAGAS	Yes

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Utah Office of the State Auditor	No						GAAS, GAGAS	Yes
Vermont Office of the State Auditor	Yes					X	County sheriffs GAGAS	No
Virginia Office of the Auditor of Public Accounts	No						GAAS, GAGAS	Yes
Washington Office of the State Auditor	Yes	X	X		X	X	Sewer districts GAAS, GAGAS	Large entities are required to prepare in accordance with GAAP and smaller entities can prepare cash basis.
West Virginia Legislative Auditor's Office – Performance Evaluation Research Division	No							
West Virginia Legislative Auditor's Office – Post Audit Division	No							
Wisconsin Legislative Audit Bureau	No							
Wyoming Department of Audit	Yes				X	X	Special districts GAGAS	Yes

¹ This state did not respond to the 2012 Auditing in the States survey.