



Hochschild, Bloom & Company LLP
Certified Public Accountants

Government Finance Officers Association of Missouri May 12, 2016 Audit Update

By:
Mike Williams, CPA, Audit Partner
Hochschild, Bloom & Company LLP CPA's

Presentation Outline

- ▶ Types of audits
- ▶ What to expect when being audited
- ▶ Best practices
- ▶ Pitfalls to avoid

Hochschild, Bloom & Company LLP
Certified Public Accountants



Types of Audits

Hochschild, Bloom & Company LLP
Certified Public Accountants



Types of Audits

- ▶ Financial Audit
- ▶ GAO Yellow Book/GAGAS Audit
- ▶ OMB A-133/Single Audit/Federal Program Audit
- ▶ Forensic Audit
- ▶ Fraud Audit
- ▶ Agreed-Upon Procedures
- ▶ Performance Audit-per Yellow Book
- ▶ Audit vs. Review vs. Compilation

Hochschild, Bloom & Company LLP
Certified Public Accountants



When Audits are Required

- ▶ Bond issue
- ▶ Charter
- ▶ Standard procedure
- ▶ Board request
- ▶ RSMo 105.145.1 Political subdivisions to make annual report of financial transactions
- ▶ 15 CSR 40-3.030 Annual Financial Reports of Political Subdivisions

Hochschild, Bloom & Company LLP
Certified Public Accountants



Missouri Revised Statutes Chapter 105 Public Officers and Employees--Miscellaneous Provisions

Section 105.145.1

Political subdivisions to make annual report of financial transactions to state auditor.

1. The following definitions shall be applied to the terms used in this section:

- (1) "Governing body"....;
- (2) "Political subdivision"....

2. The governing body of each political subdivision in the state shall cause to be prepared an annual report of the financial transactions of the political subdivision in such summary form as the state auditor shall prescribe by rule, except that the annual report of political subdivisions whose cash receipts for the reporting period are ten thousand dollars or less shall only be required to contain the cash balance at the beginning of the reporting period, a summary of cash receipts, a summary of cash disbursements and the cash balance at the end of the reporting period.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Missouri Revised Statutes Chapter 105 Public Officers and Employees--Miscellaneous Provisions

Section 105.145.1 (cont.)

3. Within such time following the end of the fiscal year as the state auditor shall prescribe by rule, the governing body of each political subdivision shall cause a copy of the annual financial report to be remitted to the state auditor.
4. The state auditor shall immediately on receipt of each financial report acknowledge the receipt of the report.
5. In any fiscal year no member of the governing body of any political subdivision of the state shall receive any compensation or payment of expenses after the end of the time within which the financial statement of the political subdivision is required to be filed with the state auditor and until such time as the notice from the state auditor of the filing of the annual financial report for the fiscal year has been received.
6. The state auditor shall prepare sample forms for financial reports and shall mail the same to the political subdivisions of the state. Failure of the auditor to supply such forms shall not in any way excuse any person from the performance of any duty imposed by this section.
7. All reports or financial statements hereinabove mentioned shall be considered to be public records.

Hochschild, Bloom & Company LLP
Certified Public Accountants



15 CSR 40-3.030 Annual Financial Reports of Political Subdivisions

- ▶ (1) An annual financial report shall be filed with the State Auditor's Office by every political subdivision. The annual financial report shall be set forth on the financial report form available from the State Auditor's Office and on its website, or may be in a form determined by the political subdivision which shall contain, as a minimum, the following: (A) The balance at the beginning of the reporting period of each fund; (B) A summary of the receipts during the reporting period of each fund; (C) A summary of the disbursements during the reporting period of each fund; (D) The balance at the end of the reporting period of each fund; (E) A statement of the bonded indebtedness at the beginning and end of the reporting period; (F) The property tax rate levied for each fund expressed in cents per one hundred dollars (\$100) assessed valuation.

Hochschild, Bloom & Company LLP
Certified Public Accountants



15 CSR 40–3.030 Annual Financial Reports of Political Subdivisions (cont.)

- ▶ (2) In lieu of filing an annual financial report, a political subdivision may file an independent audit report prepared by a certified public accountant which, at a minimum, must contain the items listed in section (1) above.
- ▶ (3) Notwithstanding any other provision of this rule, a political subdivision whose cash receipts for the reporting period are ten thousand dollars (\$10,000) or less may file an annual financial report in a form determined by the political subdivision which need only contain the following: (A) The cash balance at the beginning of the reporting period of each fund; (B) A summary of cash receipts during the reporting period of each fund; (C) A summary of cash disbursements during the reporting period of each fund; (D) The cash balance at the end of the reporting period of each fund.

Hochschild, Bloom & Company LLP
Certified Public Accountants



15 CSR 40–3.030 Annual Financial Reports of Political Subdivisions (cont.)

- ▶ (4) The annual financial report shall be mailed to the State Auditor's Office at PO Box 869, Jefferson City, MO 65102, or emailed to PolySubFS@auditor.mo.gov.
- ▶ (5) An unaudited annual financial report shall be submitted within six (6) months after the end of the political subdivision's fiscal year; an audit report prepared by a certified public accountant shall be submitted within six (6) months after the end of the political subdivision's fiscal year.

Hochschild, Bloom & Company LLP
Certified Public Accountants



RSMo – Semiannual statements

- ▶ Fourth Class Cities **79.160** – The board of aldermen shall semiannually each year, at times to be set by the board of aldermen, make out and spread upon their records a full and detailed account and statement of the receipts and expenditures and indebtedness of the city for the half year ending with the last day of the month immediately preceding the date of such report, which account and statement shall be published in some newspaper in the city.
- ▶ Third Class Cities **77.110** – The council shall publish a full and detailed statement of the receipts and expenditures and indebtedness of the city at the end of each fiscal year and six months after the end of each fiscal year in a newspaper of general circulation in the city. Each such statement shall be for the six-month period preceding the date of the statement.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Financial Audit

- ▶ Provides an opinion whether financial statements are materially correct.
- ▶ Fraud – material financial fraud is tested, not all fraud.
- ▶ Cash/modified cash basis vs. accrual basis.
- ▶ Unmodified opinion vs. qualified/modified opinion.
- ▶ Disclaimer vs. adverse opinion.
- ▶ Testing/sampling vs. everything.
- ▶ An audit seeks to provide only **reasonable assurance** that the statements are free from material error.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Financial Audit Report–Sample, pg. 1

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Financial Audit Report–Sample, pg. 2

Auditor's Responsibility (cont.)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Hochschild, Bloom & Company LLP
Certified Public Accountants



GAO Yellow Book

- ▶ The *Government Auditing Standards*, Issued by the Comptroller General of the United States (GAGAS).
- ▶ Requires auditors to have additional training.
- ▶ Requires additional reporting including the usual – “Report in Internal Controls Over Financial Reporting and on Compliance”

Hochschild, Bloom & Company LLP
Certified Public Accountants



GAO Yellow Book–Sample Report, pg. 1

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 12, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Hochschild, Bloom & Company LLP
Certified Public Accountants



GAO Yellow Book–Sample Report, pg. 2

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Single Audit/Federal Program Audit

- ▶ Required when more than \$750,000 of Federal grant dollars are “expended” during the fiscal year. (\$500,000 prior to 12/31/15 y/e’s.)
- ▶ New Uniform Guidance requirements. Formerly OMB Circular A-133.
- ▶ Special procedures and report regarding internal control and compliance for the Federal program.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Forensic and Fraud Audits

- ▶ Similar types of audits to investigate a certain portion of activity for fraud.
- ▶ Investigations of criminal activity.
- ▶ Documentation of discrepancies.
- ▶ Examples:
 - Review of all cash receipts at the building department for the past 2 years.
 - Review of all disbursements from petty cash.
 - Analytical review of receipts vs. amount of service provided for one month.
 - Review of expenditures for bond issue or special tax.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Agreed-Upon Procedures

- ▶ Applying procedures for a specific issue.
- ▶ Potential types of agreed-upon procedures
 - Check all receipts for the recreation department per recreation software and match to daily deposit for a week.
 - Check all the bond refunds to the court files for a month.
 - Check balance of the special TIF close out fund since inception to the receipts and disbursements.
 - Verify the deposits to the reserve accounts in accordance with bond requirements.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Performance Audit

- ▶ The *Government Auditing Standards*, issued by the Comptroller General of the United States, generally review of specific issues and reported to assist management and oversight officials in understating the need for taking corrective action.
- ▶ Goals–Recommend actions to correct deficiencies, and improve programs and operations.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Audit/Review/Compilation

- ▶ Audit – Provide highest level of assurance.
- ▶ Review – Provides limited assurance. Includes inquiry and analytical procedures.
- ▶ Compilation – Provides no assurance since there is no testing and no analytical procedures.

Hochschild, Bloom & Company LLP
Certified Public Accountants



What to Expect When Being Audited

Hochschild, Bloom & Company LLP
Certified Public Accountants



Items needed

- ▶ List of items needed:
 - Auditors call these PBC lists (prepared by client).
 - Easy audit schedules–
 - Balance sheet accounts such as cash, investments, receivables, prepaid items, accounts payable, payroll payable
 - Revenues and expenditure accounts such as miscellaneous income, payroll and capital expenditures
 - Slightly more difficult schedules–capital assets including depreciation, amortization of debt discounts/premiums, deferred gain on refunding of debt, court receivables, deferred inflows and deferred outflows.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Items needed (cont.)

- ▶ List of items needed (cont.):
 - Policies such as personnel manual, procurement (purchasing) procedures, budget policies, etc.
 - Documentation of procedures such as cash receipts, cash disbursements, payroll, wire transfers, journal entries, remote cash receipts such as court, parks or public works.
 - Contracts for significant items such as trash, leases, debt agreements, etc.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Items needed (cont.)

- ▶ Confirmation letters to funding agencies, attorneys, banks, investment companies, etc. These are needed early, close to year end. Determine who types, what items to include.
- ▶ Involvement of management in part of audit process.
- ▶ Auditors perform audits, auditors do not determine the amounts reported.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Findings

See GAO Yellow Book Internal Control & Compliance–Sample Report, pg. 1 for definitions:

- ▶ Material Weaknesses
- ▶ Significant Deficiencies

Other audit comments and recommendations which are not material weaknesses or significant deficiencies:

- ▶ Management Letter Comments

Hochschild, Bloom & Company LLP
Certified Public Accountants



Internal Controls

- ▶ Standard operating procedures
- ▶ Document procedures
- ▶ Examples of important systems for internal controls:
 - Payroll
 - Check disbursements
 - Cash receipts
 - Tone at the top
 - Anti-fraud program

Hochschild, Bloom & Company LLP
Certified Public Accountants



What are Internal Controls?

- Methods and procedures used to provide reasonable assurance that the systems of policies and procedures:
 - Protect the assets of an organization
 - Ensure the validity of financial records and reporting
 - Promote adherence to policies and procedures, as well as compliance with laws and regulations
 - Achieve effective and efficient operations

Hochschild, Bloom & Company LLP
Certified Public Accountants



General Controls

- ▶ Is there segregation of duties?
- ▶ Are employees cross trained?
- ▶ Are approvals (initials, etc.) documented for everything?
- ▶ Are the policies and procedures documented?
- ▶ Does the Finance Officer perform analytical reviews?
- ▶ Finance Director and City Administrator should ask questions.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Why are Internal Controls Important?
Dixon, Ill., comptroller Rita Crundwell alleged she embezzled more than \$53 million.



Hochschild, Bloom & Company LLP
Certified Public Accountants



Best Practices

Hochschild, Bloom & Company LLP
Certified Public Accountants



Best Practices

- ▶ **Record Retention Manual –**
 - Missouri Secretary of State website:
<http://www.sos.mo.gov/archives/localrecs/schedules/>
- ▶ **Investment Policy –**
 - Missouri Treasurer website – sample included:
www.treasurer.mo.gov/link/ModelInvestmentPolicy.pdf

Hochschild, Bloom & Company LLP
Certified Public Accountants



Best Practices

- ▶ **GFOA has many Best Practices:**
<http://www.gfoa.org/best-practices>
- Mike's favorites:
- Appropriate level of fund balance
 - Capitalization threshold for capital assets
 - Documenting accounting policies and procedures
 - Audit committees
 - Practical steps to avoid, limit, or eliminate internal control deficiencies identified in an audit
 - Getting management involved in internal control
 - Budgeting and financial reporting
 - Enhancing tax abatement transparency

Hochschild, Bloom & Company LLP
Certified Public Accountants



GFOA Best Practice

Appropriate Level of Unrestricted Fund Balance in the General Fund

- GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.
- GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. (16.6%)

Hochschild, Bloom & Company LLP
Certified Public Accountants



GFOA Best Practice

Establishing Capitalization Thresholds for Capital Assets

- ▶ Potentially capitalizable items should only be capitalized only if they have an estimated useful life of at least two years following the date of acquisition;
- ▶ Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets (e.g., books of a library district);
- ▶ In no case should a government establish a capitalization threshold of less than \$5,000 for any individual item;
- ▶ In establishing capitalization thresholds, governments that are recipients of federal awards should be aware of federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts (i.e., currently \$5,000) for purposes of federal reimbursement; and
- ▶ Governments should exercise control over potentially capitalizable items that fall under the operative capitalization threshold

Hochschild, Bloom & Company LLP
Certified Public Accountants



GFOA Best Practice

Documenting Accounting Policies and Procedures

- Every government should document its accounting policies and procedures. Traditionally, such documentation has taken the form of an accounting policies and procedures manual.
- Documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years, according to a predetermined schedule. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur.
- Documentation of accounting policies and procedures should explain the design and purpose of control related procedures to increase employee understanding of and support for controls.
- Documentation of accounting policies and procedures should indicate which employees are to perform which procedures. Procedures should be described as they are actually intended to be performed rather than in some idealized form.

Hochschild, Bloom & Company LLP
Certified Public Accountants



GFOA Best Practice

Audit Committees

- ▶ Some have Finance or Ways and Means Committee
- ▶ Oversee reporting and internal control
- ▶ Review risk areas
- ▶ Monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of controls
- ▶ Members:
 - No fewer than 3 members
 - Should have one financial expert
 - Have appropriate degree of professional skepticism
 - Not be executive members of management

Hochschild, Bloom & Company LLP
Certified Public Accountants



GFOA Best Practice

Practical Steps to Avoid, Limit, or Eliminate Internal Control Deficiencies Identified in an Audit

- Every practical step should be taken to minimize the possibility of material auditor-initiated audit adjustments. A periodic process during the year to ensure the ongoing completeness and accuracy of data can aid in identifying and preparing adjustments to limit the number and dollar amounts of adjustments that result from the auditor.
- Further, procedures at the end of the period can also help limit auditor-initiated adjustments. For example, a government should carefully review its cutoff procedures and the method it uses to uncover unrecorded liabilities at the end of the fiscal period (items found by the auditor could result in a significant deficiency or material weakness).

Hochschild, Bloom & Company LLP
Certified Public Accountants



GFOA Best Practice

Getting Management Involved with Internal Control

- ▶ Financial managers should obtain the information and training needed to meaningfully take responsibility for internal control. In particular, they should obtain a sound understanding of the essential components of a comprehensive framework of internal control. They also should ensure that all employees responsible in any way for internal control receive the information and training they need to fulfill their particular responsibilities.
- ▶ GFOA also recommends that internal control procedures over financial management be documented.
- ▶ Documented internal control procedures should include some practical means for lower level employees to report instances of management override of controls that could be indicative of fraud.
- ▶ The determination of whether controls have been implemented necessarily involves establishing their initial effectiveness as a *baseline* for future monitoring.
- ▶ It is the responsibility of appropriate elected officials to ensure that the managers who report to them fulfill their responsibilities in implementing and maintaining a sound and comprehensive framework of internal control.

Hochschild, Bloom & Company LLP
Certified Public Accountants



GFOA Best Practice

Enhancing Tax Abatement Transparency–New Jan. 2016

- ▶ The government should disclose the following information in its letter of transmittal:
 - A reference to other documents (budget, economic development plan, board minutes) where a complete cost/benefit analysis can be found, along with information on how to access those documents;
 - A five-year chart of benefits anticipated and received due to the abatement, which should include both financial and nonfinancial benefits (e.g., increased employment).
- ▶ GFOA recommends that finance staff initiate communication with its entity's economic development partners charged with initiating, developing, and affirming tax abatements to ensure the proper flow of information
- ▶ The government should establish the same relationships with other governmental entities that have the power to abate their taxes, as well as a timeline to ensure that they provide all necessary information soon enough to prevent any delay in the timely issuance of a government's comprehensive annual financial report.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Pitfalls to Avoid

Hochschild, Bloom & Company LLP
Certified Public Accountants



Restricted Revenues Indicted and Convicted!!

THE BAD NEWS

Two City of Neosho officials indicted and convicted (one pled and one after trial) for **transferring money from tourism tax fund and allowing use for general purposes**

- No ill motive involved
- No personal gain
- Allowed restricted fund to be used for general fund purposes

THE GOOD NEWS

The City responded by seriously addressing the state audit winning praise from State Auditor

- "...serious about accountability..." - Tom Schweich - Missouri State Auditor - 12/29/2011

Hochschild, Bloom & Company LLP
Certified Public Accountants



Pitfalls To Avoid

IRS Quick Reference Guide For Public Employers

• www.irs.gov/pub/irs-pdf/p5138.pdf

- ▶ All payments of compensation to an employee should be reported on Forms W-2; never use Form 1099-MISC to report payments for services by an employee.
- ▶ Clothing provided by the employer:
 - The value of work clothing provided by the employer is not taxable to the employee if:
 - 1) The employee must wear the clothing as a condition of employment, and
 - 2) The clothes are not suitable for everyday wear.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Pitfalls To Avoid

IRS Quick Reference Guide For Public Employers (cont.)

Clothing Provided by the Employer: (cont.)

- It is not enough that the employee wear distinctive clothing; the employer must specifically require the clothing as a working condition. Nor is the test met because the employee does not, in fact, wear the work clothes away from work. The clothing must not be suitable for taking the place of regular clothing. However, a detective's suit jacket and related clothing, since they are suitable for everyday wear, do not qualify as a uniform and are taxable to the employee.
- The value and upkeep of work clothes provided to firefighters, health care workers, law enforcement officers or letter carriers is nontaxable to the employee. Similarly, the value of safety shoes or boots, safety glasses, hard hats and work gloves provided and maintained by the employer are not taxable. Reimbursements to employees for their purchase of any of these are excludable if the expenditures are substantiated under the accountable plan rules.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Pitfalls To Avoid

Fraud Reporting/Whistleblower/Compliance Policy - consider the following (sample provided):

- ▶ Will items reported to supervisors, or department heads?
- ▶ Will items also be reported to the City Administrator or Board? If not, will the Administrator or Board ever know of alleged or actual fraud? What would be the policy when to report to the Administrator or Board? Generally, false allegations should be kept private until confirmed.
- ▶ A single person, such as a designated compliance officer, would be able to be aware of trends and set policies for following-up on allegations.
- ▶ Determine if these policies should be included in the personnel manual vs. annual distribution?
- ▶ Do you want to develop a standard form so standard information is presented to report? For instance a Uniform Complaint Report identifying who is making the report, against whom and do you want them to attach details such as copies of documents, or other exhibits to support the report. This will determine a policy if the City wants all reports to be in writing (to avoid potential misinterpretation of the issue).
- ▶ Determine if you allow anonymous allegations.
- ▶ Will the City follow-up with the accuser in order to communicate resolution of the issue?

Hochschild, Bloom & Company LLP
Certified Public Accountants



Pitfalls To Avoid

- Independence issues:
 - Auditors should not determine the amounts and disclosures for the financial report.
 - Auditors should not be the internal bookkeeper for the entity being audited.
 - Auditors can provide training and consulting.
 - Auditors can process certain calculations as long as client assumes responsibility.
- Capital assets hints:
 - Schedule of capital assets and depreciation.
 - Schedule of capital asset additions and deletions.
 - Schedule of depreciation by department.
 - Schedule of repairs and maintenance.
 - Reconciliation of capitalized and noncapitalized expenditures.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Pitfalls To Avoid

- Review support for numbers before auditors show up:
 - All balance sheet items should be verified—cash, investments, receivables, payables, payroll liabilities, etc.
 - Fixed assets/capital assets should be verified.
 - Significant changes in balances should be known. Review before the auditors show up.
 - Don't be over budget.
- Ask auditors about any big changes before they start the audit.
- Communicate and document timing.
- Follow-up with comments/findings from last year.
- Discuss potential findings early and often.
- Discuss benefits of audit committees.
- Determination of information for Council/Boards.

Hochschild, Bloom & Company LLP
Certified Public Accountants



Pitfalls To Avoid

- Things that may hold up the report:
 - Actuarial reports:
 - Pension
 - OPEB
 - Landfill closure liability engineering reports
 - Continuing disclosure for debt
 - Statistical information from other departments or other entities
- MD&A – Management’s Discussion and Analysis:
 - Determine who will draft and finalize
- Determining items outside the Finance Department such as litigation for disclosure
- Client representation letter (all parties need to sign)
- Attorney audit representation letter

Hochschild, Bloom & Company LLP
Certified Public Accountants



Eric & Bill

© 2007 Tribune Media Services, Inc. All rights reserved.

7/16

“Hey, we’re government accountants.
These numbers aren’t supposed to add up.”

Hochschild, Bloom & Company LLP
Certified Public Accountants



Questions and Discussion

Michael D. Williams, CPA

Partner

Hochschild, Bloom & Company LLP, CPA's

15450 South Outer Forty Road, Chesterfield, Mo

1000 Washington Square, Washington Mo

(636) 532-9525

mike@hbclp.com

