



Common Errors Noted in the Financial Statements, the Auditor's Opinions, and the Findings

Presented by:
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Financial Audits Director



Agenda

- OSA Review Process
- Common Errors noted
 - Independent Auditor's Report
 - Financial Statements
 - Notes to the Financial Statements
 - Report on Internal Control
 - Auditor's Reports Under Circular A-133
 - Single Audit
 - Findings
 - Agreed-Upon Procedures
- Key Items to Remember



Section 12-6-14(B) NMSA

- “Requires that the State Auditor or personnel of his Office designated by him examine all audit reports of agencies made pursuant to contract.”



Office of the State Auditor

- Report Review Process
 - ≈800 Reports
 - Submit Draft to OSA
 - OSA staff will review the report and notify the IPA and entity once it is reviewed.
 - Submit Final copies
 - Include memo regarding any changes to final that were not made based on OSA comments
 - Submit electronic versions of schedules
 - Final Report
 - Reviewed by OSA staff and then a release letter is sent out on the report.



The Independent Auditor's Report

- Incorrect agency name in the audit report
- Incorrect dates and descriptions throughout the report to indicate the current period being reported on
- Omitting some of the appropriate financial statements and budgetary comparisons in the scope and opinion paragraphs in the Independent Auditor's report
- Inconsistency of report dates

GASB 63

- Using the term “Net Assets” instead of “Net Position” in reports prepared under GASB framework
 - GASBS 63 paragraph 8: “Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components—*net investment in capital assets*; *restricted* (distinguishing between major categories of restrictions); and *unrestricted*.”

GASB 68

Issues related to implementation of GASB 68:

- Required information is completely omitted:
 - Government-wide financial statements (GASB 68.48-68.72)
 - Fund financial statements (GASB 68.73)
 - Notes to financial statements (GASB 68.73-68.81)
 - Required Supplemental Information (GASB 68.81)
- Restatement calculated incorrectly
- Numbers used do not match PERA or ERB allocation reports
- Omission of RSI Schedules and/or Notes to RSI

Findings

- Personally identifying information improperly included in the reports/findings (e.g. employees' names instead of titles)
- Budget violations at legal level of budgetary authority not included in findings
- New audit rule requirements for findings not incorporated into report:
 - Include Management's progress or lack thereof in Condition of repeat findings
 - Include Corrective Action Plan and associated timeline for completion in Management Response
 - Designate employee position who is responsible for corrective action plan and timeline

Findings

- The condition of a finding omitting the required elements
 - Total dollar amounts
 - Variance dollar amounts
 - Total number of Instances tested
 - Number of instances with exceptions

2.2.2.10(I)(3)(c) NMAC “Condition (provides a description of a situation that exists and should include the extent of the condition and an accurate perspective; the number of instances found and the dollar amounts involved, if any, should be reported in the condition)”

Results of Finding Requirements Introduced in 2015 Rule

Agency Responses to Findings must include a “specific corrective action plan with a timeline and designation of what employee position(s) are responsible for meeting the deadlines in the timeline” 2.2.2.10.1(3)(c)(vi)

- The requirement was in effect for FY15 and continues for FY16
- OSA noted substantial variation in the quality of information provided
- IPAs need to work with management to get reasonable, robust corrective action plans

Areas for Further Improvement, *Finding Consistency*

- Required information completely omitted

Response

We will report the new hires when the payroll documents are received insuring they will be reported and timely.

- Not all required information provided

Corrective Action: The County has immediately started working on the procedural process that will be used for submission of these transfers from the Treasures office as recommend.

Areas for Further Improvement, *Finding Consistency (cont'd)*

“Mega” findings, combining many issues into one finding

FS 2015-001 Deficiencies in Internal Control Structure Design, Operation and Oversight (Material Weakness)

Condition: During our process of understanding the entity and its environment, we noted instances where elements of the framework of COSO were nonexistent or deficient. We also noted the following deficiencies:

- During our review of the overall entity wide controls, we noted that some employees have the ability to perform all duties of the treasurer’s office with no other oversight by any other individual.
- The County does not have a proper structure in place for the treasurer’s office to ensure that duties, control, and monitoring functions are delegated to individuals at the appropriate level of the entity and that proper oversight is in place over these functions
- During procedures over cash, it was noted that the County did not have completed bank reconciliations or Treasurer’s cash reconciliations for fiscal year 2015. The County did not adequately reconcile cash across funds, the Treasurer’s general ledger balance to the bank, or the Treasurer’s general ledger balance to that of the Finance Department for fiscal year 2015.
- During procedures over property taxes, we noted that the County is not properly utilizing the accounting software to properly record, track, monitor, and report property taxes or the 10 year property tax schedule.
- The County could not obtain the documentation and data required to prepare a ten year tax roll schedule, properly track current year property tax distributions, and did not properly monitor property tax collections throughout the year.
- Property tax collections and distributions to agencies were not adequately reconciled between the bank and general ledger throughout the fiscal year.
- Agency cash and property tax distributions were not properly tracked and reconciled to the general ledger starting in July of 2014.
- During our audit, we noted that the County improperly left accumulated depreciation for capital assets disposed of during the 2014 fiscal year in the general ledger for 2015.
- It was noted during our fieldwork that employee timesheets for 2 out of 10 transactions were not signed by the department head as evidence of review.
- Employee files do not contain proper documentation of employee pay increases and up to date pay rates.
- The IT administrator has access to assign rights to the County’s accounting software and is responsible for printing payroll checks through the payroll module.

Areas for Further Improvement, *Finding Consistency (cont'd)*

• More “Mega” findings

FS 2014-003 — Segregation of Duties – Material Weakness

Condition: During our testwork of the cash receipts and cash disbursements process, we noted the following instances of a lack of appropriate segregation of duties:

The deputy clerk can perform all essential functions in the cash receipt cycle.

- The Deputy Clerk has the ability to perform all major disbursements processes
- The Deputy Clerk has the ability to perform all major payroll processes
- The Deputy Clerk has the ability to create deposit slips, make deposits, record entries, and prepare the bank reconciliation on all bank accounts.
- The Deputy Clerk has the ability to perform bank transfers for accounts that are reconciled
- The Deputy Clerk has the ability to post manual journal entries to the general ledger
- The Deputy Clerk has back up duties related to counting the utilities and miscellaneous cash receipts of the accounts she deposits and reconciles
- The Deputy Clerk performs bank reconciliation and has access to the general ledger and can make wire transfers

CU FS 2015-001 Deficiencies in Internal Control Structure Design, Operation, and Oversight – Material Weakness

Condition: During our process of understanding the entity and its environment, we noted instances where elements of the framework of Committee of Sponsoring Organizations (COSO) were nonexistent or deficient. We noted that the risk assessment element and monitoring element were not documented or properly designed. We also noted the following deficiencies:

- Lack of segregation of duties in the payroll cycle. The Business Manager has access to both Human Resources and payroll processing functions.
- Lack of internal controls over review of bank reconciliations. The only review of the bank reconciliations are done by the Business Manager, who also prepares and investigates any discrepancies.
- Lack of proper access restriction over the Vendor Database Master File and review of changes made. The Employee Database Master File is accessible by Business Manager and the CEO/Principle and no review of changes made are being done to ensure the file is accurate and complete and a change could be made without the approval or knowledge of management.
- Lack of proper access restriction over the Employee Database Master File and review of changes made. The Employee Database Master File is accessible by Business Manager and the CEO/Principle and no review of changes made are being done to ensure the file is accurate and complete and a change could be made without the approval or knowledge of management.
- Lack of review by management to ensure payroll runs are accurate and valid. The only review of payroll expenditures is performed by the Business Manager who will also investigate any discrepancies.

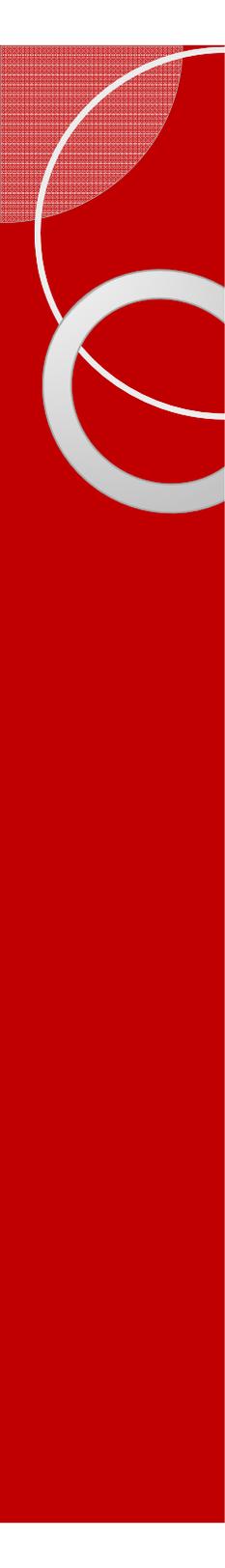
Successes, *Finding Consistency*

Responsible Official's Plan:

- **Specific corrective action plan for finding: The district Certified Procurement Officer will check the www.sam.gov portal each year to verify that vendors, whose sales to the district exceed the statutory limits, have not been suspended nor debarred from receiving federal contracts.**
- **Timeline for completion of corrective action plan: November 1, 2015**
- **Employee position(s) responsible for meeting the timeline: Chief Procurement Officer**

Agency's Response: The District will continue to work with program managers to ensure that only allowable expenditures are submitted to PED for reimbursement. Grant and Program Managers are directly responsible for ensuring that allowable expenditures only are submitted for reimbursements. Correction will be implemented by the end of December 31, 2015.

COUNTY RESPONSE: The Finance Department will re-evaluate the procedures for ensuring agency fund distributions and end of year accruals will not cause excess expenditures. The year-end budget will be more closely evaluated and compared to year end accruals. The Finance Administrator will complete the evaluations at least quarterly.



Fund Balance

GASBS 54 paragraph 18

“Fund balance classifications should depict the nature of the net resources that are *reported* in a governmental fund. An individual governmental fund could include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. Typically, the general fund also would include an unassigned amount.”

- Classification of Fund Balance:
 - Negative fund balance should be classified as unassigned
 - Positive unassigned fund balance in funds other than the General fund should be reclassified
 - GASBS 54 paragraph 17: “The general fund should be the only fund that reports a positive unassigned fund balance amount.”

Pledged Collateral

- Schedule of Pledged Collateral does not have required information
 - Section 2.2.2.10(M)(4): “All audit reports should disclose the collateral requirements in the notes to the financial statements. In addition, there should be a supplementary schedule or note to the financial statements that discloses the collateral pledged by each bank and savings and loan association (S&L) that is a depository for public funds. The schedule should disclose the type of security (i.e., bond, note, treasury, bill, etc.), security number, CUSIP number, fair market value and maturity date.”



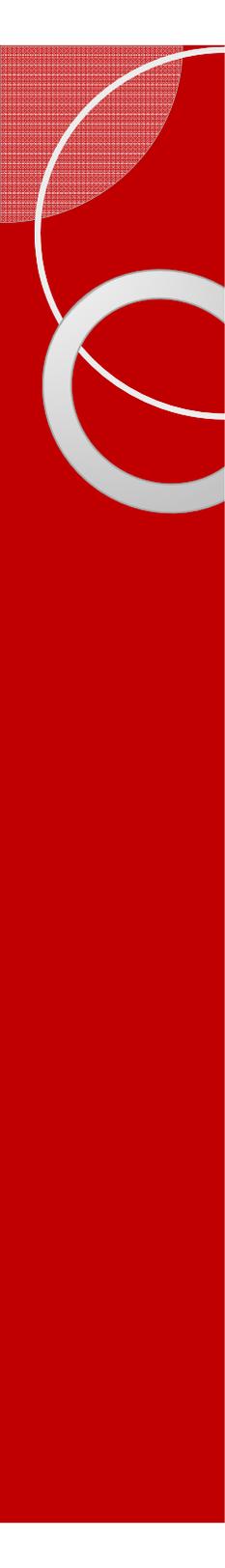
Clerical Errors

- Dollar amounts included in reconciliations and/or notes to the financial statements do not tie to respective financial statements or schedules
- Formula errors on Budgetary Comparisons, financial statements, and other schedules
- Comment from DFA for State Agencies – Financial Statements in Audit Report do not tie to SHARE



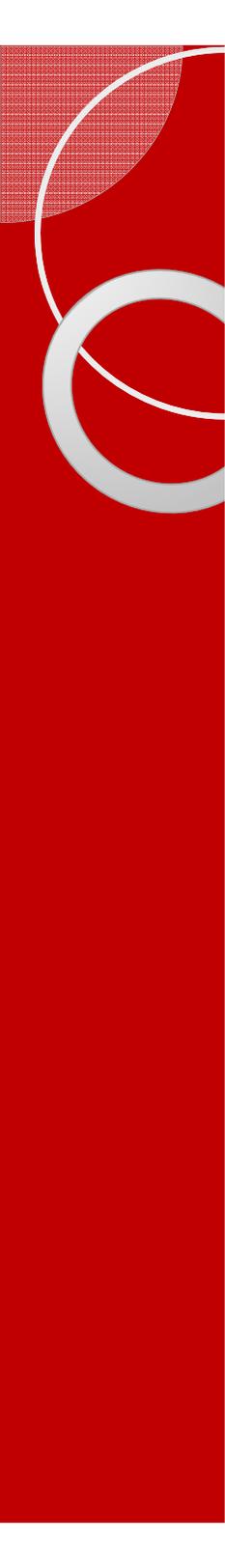
Due to/from

- Proper recording negative cash amounts as due to/from other funds in a pooled cash environment



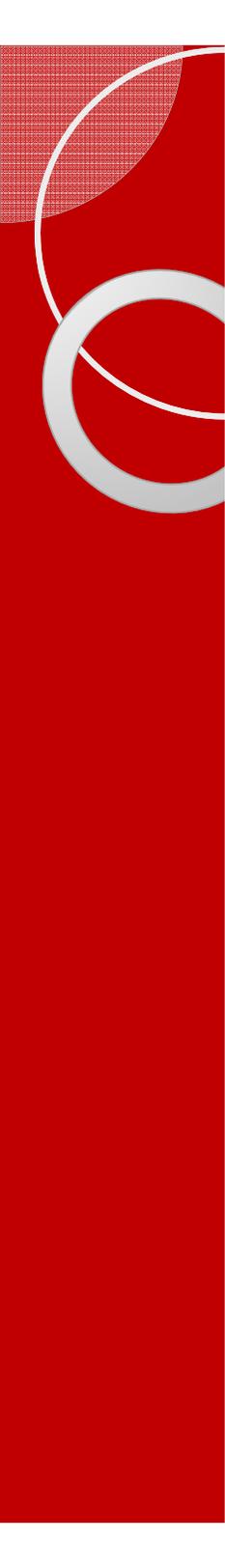
Note Disclosures

- Omission of note disclosures for significant account balances for component units



Grants

- Grants should be reported separately as Federal, State, and/or Local/Other



Reversions and Appropriations

- Reversions and appropriations should be clearly identified by year and type

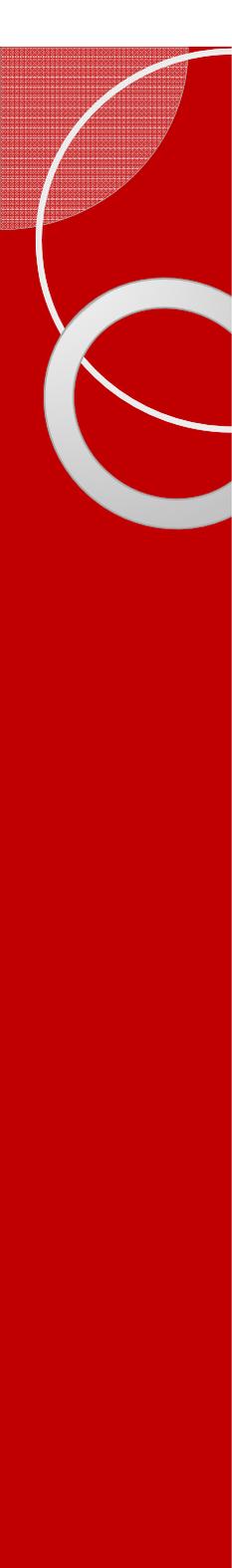
Required Schedules

- Omission of required schedules or omission of finding for noncompliance:
 - Schedule of Vendors and the related paragraph in the Independent Auditor's Report to disclaim an opinion on the schedule
 - Financial Data Schedule for Housing Authorities
 - Schedule of Pledged Collateral
 - Tax Roll Reconciliation for Counties
 - Property Tax Schedule for Counties
 - Budgetary Comparisons – or a Note Disclosure indicating that the entity does not and is not required to have a legally adopted budget
 - Schedule of Changes in Assets and Liabilities for Agency Funds



Agreed Upon Procedures

- Performance of wrong Tier
- Agency not in compliance for preceding year (Performed a FY2015 engagement when an FY2014 engagement was required)
- Inclusion of NM State Legislature in Restricted Use paragraph
- Include actual results of testwork in the report, not just the exceptions
- Linkage between results of procedures performed and related finding if a finding was necessary



Know Your Audience

- Not just CPAs, CFOs, etc.
- Many with oversight responsibilities are unfamiliar with audits
- Use plain English to convey “the story” (what happened, why, what should be done about it, who is responsible for fixing it)
- Findings should have sufficient information to indicate the significance of the issue (big deal, not a bid deal)



Key Items to Remember

- **Before printing/combining the final report:**
 - Refresh all links
 - Use an electronic signature
 - Review all schedules to ensure proper display
 - Update all pages affected by last minute changes
- **Before submitting the report:**
 - Review electronic/hard copy of report
 - Use the IPA review guide

Any Questions?

