Dealing with Audit Findings
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Facilitator:
Kay Sohl, Kay Sohl Consulting

Panelists:
Mary Pockl and Mike Zeno, CPAs
S.R. Snodgrass A.C.

Mary Pockl & Mike Zeno

- **Mary Pockl, CPA**, Senior Vice President, Not-for-Profit and Financial Institutions at S.R. Snodgrass A.C., has provided audit and consulting services for over 16 years, focusing primarily on A-133 audits. Prior to joining Snodgrass, Mary was the fiscal director for a five-county Area Agency on Aging and the accountant for a three-county regional council of government in the state of West Virginia.

- **Mike Zeno, CPA**, is a Principal at Snodgrass for Not-for-Profit organizations, financial institutions, and small business. In addition to his service as Chairman of the Firm’s Accounting and Auditing Committee, he has served two terms as the Chairman of the Audit and Accounting Standards Committee for a national association of CPA firms. He provides a variety of services to financial institutions, not-for-profit organizations, and local government entities, as well as small to mid-sized businesses.
Call Goals

- Discussion among CAA leaders
- Opportunity to talk through questions & challenges with experienced auditors

Call Topics

- Context for A-133 audits
- A-133 reporting requirements
- Management’s response to findings
- Funder response to findings
- When good minds disagree – auditor and auditee communication strategies

Context:
Purpose of Independent Audit

Obtain auditor’s opinion about whether the entity’s financial statements fairly present the financial position and results of activities in accord with standards of US GAAP
**Context:** Independent Audit Basics

- Board engages CPA to conduct independent audit
- Management responsible for preparing accurate financial statements
- Auditor responsible for opinion on extent to which readers can rely on the statements

**Context:** GAAS

- Generally Accepted Audit Standards
- Developed by AICPA
- Published in Statements on Auditing Standards (SAS)
- Significant changes since 2006

**Context:** A-133 Audits

- Required when combined federal expenditures of $500,000 or more within the organization’s fiscal year
- Described in Office of Management & Budget Circular A-133 & Compliance Supplements
- Include all standard independent audit procedures and reports
- Require additional testing and reporting on compliance with federal funds requirements
A-133 Requires Use of GAGAS

- Generally Accepted Government Auditing Standards [http://www.gao.gov/pubsaudybk01.htm](http://www.gao.gov/pubsaudybk01.htm)
- Developed by GAO
- Include requirements for auditor qualifications
- Includes testing and reporting beyond that required by GAAS

A-133 Requires Auditors to:

- Identify major federal programs
- Understand compliance requirements for major federal programs
- Identify risks of non-compliance
- Tailor audit procedures & tests to address the level of risk
- Test controls to determine compliance

A-133 Audit Report Must Include

- Standard audit opinion letter
- Auditor’s opinion on compliance with requirements of major federal programs
- Description of findings on controls, compliance and questioned costs
**Context:**

**Management Responsibilities**
- Develop & maintain effective controls
- Identify & meet compliance requirements
- Prepare comprehensive financial statements & Schedule of Expenditures of Federal Awards (SEFA)

**Context:**

**More Management Responsibilities**
- Select a qualified firm to conduct the A-133 audit
- Address prior audit findings
- Respond to current audit findings
- Ensure timely submission of audit report

**Both GAAS and A-133 require the Auditor to understand, evaluate, and test Internal Controls**
Internal Control Standards

- Both A-133 and standard audits rely on COSO
- COSO – Committee of Sponsoring Organizations created framework for establishing and evaluating internal controls
- www.coso.org/IC

Auditors Required to:

- Understand control environment
- Perform rigorous analysis of risks and design audit procedures to test for significant risks
- Must test of controls even when design of controls is deemed inadequate

Key ??? For Auditors

- Are the controls as designed adequate to address risks?
- Are controls working as designed?
- How likely is it that the controls have failed?
  - To deter and/or detect error or improper action
  - To result in correction of error
- How significant would the consequences be if the controls failed?
Auditor Conclusions

- Consider adequacy of control design
- Analyze results of testing to determine effectiveness of controls
- Determine the significance of control problems
- Communicate control conclusions

3 Auditor Reports

- Report on Financial Statement and Supplementary Information ...(opinion letter)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards ...(Yellow Book report)
- Report on Compliance and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Significant Deficiencies

- Exists when design or operation of a control does not allow management or staff to prevent or detect misstatements on a timely basis
**Significant Deficiencies**

- Inability to prepare F/S
- Inadequate segregation of duties
- No Safeguarding of assets
- Receives significant accounting services
- Lack of timely reconciliations
- Lack of expertise in accounting principles
- Employee fraud
- Qualification & training of staff
- No monitoring of controls

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**Material Weaknesses**

- A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected

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**Material Weaknesses**

- Significant audit adjustments
- Not correcting internal control deficiencies
- Fraud by management
- Regulatory non-compliance
- Bias in accounting estimates
- Restatement of financial statements
- Deficiencies in IT controls
- Ineffective oversight of financial reporting
Common A-133 Findings

- Improper allocation of costs to federal awards
- Inadequate time and effort documentation
- Inadequate Sub-recipient monitoring
- Procurement problems
- Failure to meet Cash Management requirements

More A-133 Findings

- Inadequate capacity to prepare complete financial statements
- Inadequate separation of duties

Management’s Response?
Management Response Strategies

- Realistic in relation to magnitude & resources
- Clear assignment of responsibility
- Timeline for implementation
- Transition plan
- Monitoring plan

Funders’ Response to Findings

Funder Responses

- Offer technical assistance
- Schedule additional monitoring
- Place in high risk classification
- Limit access to funding advances
- Disqualify for future funding
- Attempt to terminate current agreement
Next Steps

- Review prior findings and responses
- Identify risks for findings & questioned costs
- Prepare Board, funders, & staff for anticipated findings
- Communicate response plans