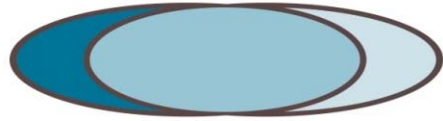




E14: Are You Ready for an Audit?

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McDONALD JACOBS

ACCOUNTANTS & CONSULTANTS

ARE YOU READY FOR AN AUDIT?

September 9, 2023 Land Trust Alliance Rally

Objectives

Identify different levels of financial statement assurance and considerations before jumping to an audit

Internal controls

Federal funds and getting ready for a Single Audit

Understanding differences in reporting in financial statements and information returns (990)

Do You Need an Audit?

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□ Levels of financial statement assurance

▣ Compilation

- ❖ Prepare financial statements in accordance with the specified basis of accounting using information provided by management.
- ❖ Apply accounting and financial reporting expertise to assist in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



Do You Need an Audit?

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- Levels of financial statement assurance
 - ▣ Review
 - ❖ Review procedures consist primarily of inquiries of organization personnel and analytical procedures applied to financial data.
 - ❖ A review is significantly less in scope than an audit, but provides limited assurance.
 - ❖ A review does not include consideration of the Organization's internal controls, assessment of control risk, testing accounting records, obtaining corroborating evidential matter from third parties and certain other procedures ordinarily performed during an audit.
 - ❖ Review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit.
 - ❖ A review is less costly than an audit.
 - ❖ Appropriate when an audit is not required by an outside party and the limited assurance provided by a review is satisfactory.



Do You Need an Audit?

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□ Levels of financial statement assurance

▣ Audit

- ❖ An audit provides reasonable assurance that the financial statements, as a whole, are fairly presented in conformity with the specified basis of accounting
- ❖ Audit procedures include confirmation of significant account balances and, on a test basis, examination of original documentation to support balances and transactions.
- ❖ In planning and performing an audit, we will consider the Organization's internal control sufficient to assess the risk of material misstatement of the financial statements and to design the nature, timing, and extent of audit procedures.
- ❖ If we become aware of weaknesses in internal controls, we will communicate our recommendations for strengthening controls and operating efficiencies in a letter to management and the Board of Directors.



Do You Need an Audit?

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- Levels of financial statement assurance
 - ▣ Agreed-Upon Procedures
 - ❖ Specific procedures on subject matter
 - ❖ Reports the findings without providing an opinion or conclusion
 - ❖ Because needs may vary widely, the nature, timing, and extend of the procedures may vary as well



Does an Outside Party Require an Audit

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□ Funders

- Local, state or federal contracts that specify an audit is required
- Foundations or other funders
- Membership organization or national affiliate
- Others

Federal Funds

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- Federal funds may be received:
 - ❖ Directly from a federal agency
 - ❖ Passed through state or local government or another not-for-profit organization
- Determine if a funding source will include federal funds **before** accepting the funding

Federal Funds

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- Single Audits and Program Specific Audits
 - ❖ Audit of one or more federal programs
 - ❖ Required if an organization receives over \$750,000 in federal funds
 - ❖ Threshold is for all sources combined
 - ❖ Based on federal funds expended during the fiscal year
 - ❖ Recipient or sub-recipient funds (exclude vendor contracts)

Federal Funds

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□ Sub-Recipient vs Vendor

▣ Some common characterizes or a sub-recipient:

- ❖ Does the entity receiving the funds from the pass-through entity determine who is eligible to receive the federal assistance?
- ❖ Does the entity receiving the funds from the pass-through entity have its performance measured in relation to whether the objectives of the federal program were met?
- ❖ Does the entity receiving the funds from the pass-through entity have programmatic decision-making responsibility?
- ❖ Is the entity receiving the funds from the pass-through entity responsible for adhering to applicable federal program requirements specified in the federal award?
- ❖ Does the entity receiving the funds from the pass-through entity use the funds to carry out a program for a public purpose specified in authorizing statute(s), as opposed to providing goods or services for the benefit of the pass-through entity?



Federal Funds

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□ Sub-Recipient vs Vendor

❖ Some common characterizes or a vendor:

- ❖ Is the entity providing the goods or services within its normal business operations?
- ❖ Does the entity provide similar goods or services to many different purchasers?
- ❖ Does the entity normally operate in a competitive environment?
- ❖ Are the goods or services provided ancillary to the operation of the federal program?
- ❖ Is there no requirement in the agreement with the pass-through entity that the entity receiving the funds is subject to the federal program's compliance requirements? (Similar requirements may apply for other reasons, though.)



Federal Funds

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□ Sub-Recipient vs Vendor

- ❖ Does the agreement state if the organization is considered a sub-recipient or vendor?
- ❖ Does the agreement state that the funds are subject to Single Audit/audit under Uniform Grant Guidance?
- ❖ Unsure? Ask the funder to clarify



Getting Ready for Your Audit

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- Documenting Controls and Processes
 - ❖ Management is responsible for design, implementation and monitoring of internal controls
 - ❖ Policies and procedures should be documented
 - ❖ Identify who has authority to approve transitions
 - ❖ While management is responsible, every level of the organization should have a role in internal control



Getting Ready for Your Audit

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- Documenting Controls and Processes
 - ❖ Are there key transaction cycles that only one person performs?
 - ❖ Prevent errors
 - ❖ Detect Fraud
 - ❖ Protect employees from appearance of too much control



Key Controls – Control Procedures

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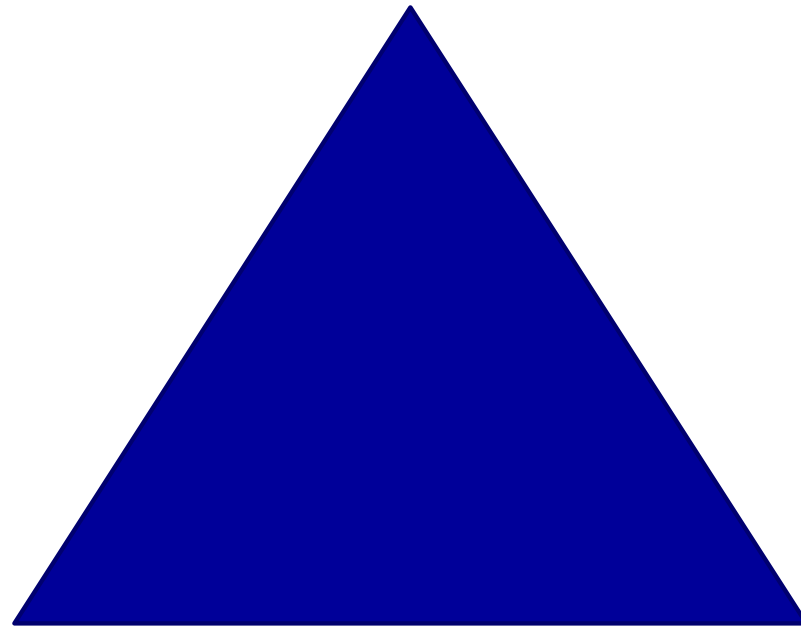
- Pre-Numbering documents (eg: checks)
- Authorization of transactions
- Timely and appropriate review
- Physical controls for safeguarding assets (passwords, securing un-deposited cash, check stock)
- Segregation of duties



Segregation of Duties

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CUSTODY



AUTHORIZATION

RECORD KEEPING

Key Controls – Cash Receipts

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- Dual opening of mail (for organizations with contributions) or use a lockbox service
- Checks restrictively endorsed and tallied in cash log
 - Log should be initialed (or electronically approved) by both individuals and compared to and included with the deposit record
- Accounting staff records cash receipts; independent check of entry to daily cash log and deposit by reviewer of bank reconciliation
- Credit memos should be authorized by someone who does not have access to or custody of cash



Key Controls – Cash Disbursements

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- Budget approved by the Board.
- Approved purchases by appropriate personnel
(federal funding requirement)
- Recipient of goods verifies that appropriate materials were received and agreed to invoice/payment



Key Controls – Cash Disbursements

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- Invoice approved for payment (with supporting documents) by appropriate personnel
- Check signer reviews all documentation supporting purchase when signing the check or authorizing bill pay
- Levels of check signing authority exist based on item and/or dollar threshold



Key Controls - Payroll

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- Personnel records are maintained and secured, including rate of pay/hours and subsequent changes
- Timesheets are prepared by employees and approved by supervisors (***Federal funding requirement***)
- Payroll is reviewed and approved by an appropriate member of management prior to issuance
- Payroll report should be reconciled to bank statement and general ledger



Consider How To Adjust Policies For Organization Size and Staffing

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- Control considerations
- Segregation of duties – small or large organizations
- Policies to consider



Control Procedures Considerations

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- Small organizations have limited resources. Not all controls are feasible
- Brainstorm about how fraud can occur and ensure controls in place
- Identify potential gaps in internal control and consider what could go wrong



Compliance Considerations

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- Federal funds (Uniform Guidance Requirements)
- IRS
- Funders

Effective Segregation of Duties for Small Organizations

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- Accounting and Executive Director
- Board Treasurer becomes part of controls (bank statement review/read-only access to banking and accounting system)
- Non-accounting staff can be trained to perform less technical functions
- Consider mitigating controls such as a periodic review of bank reconciliations by the treasurer



Effective Segregation of Duties for Larger Organizations

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- Accounting team of 2+ and Executive Director
- Finance Director as the review function
- Accounting staff prepare/post entries and reconciliations



How Do Policies Fit Into Controls?

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- Policies support controls in place
- Policies help enforce controls
- Provides a roadmap when questions arise, when new staff are hired or when cross-training is appropriate
- Policies should be written in easy to understand terms to ensure non-accounting staff are empowered to understand and follow



Financial Policies

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- Gift Acceptance
- Travel/Meals/Entertainment
- Billing/Collecting Receivables
- Contractors
- Credit card use and employee reimbursements
 - Loss of privileges if policies not followed
- Monthly close:
 - Reconcile key accounts
 - Reconcile accounting and development records
- Approval matrix

Payroll Policies

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- Time and effort reporting submitted and approved (federal funding requirement)
 - Software
- Review of payroll prior to processing and payment
- Preparation of allocations charged to contracts are documented and supported by time and effort reporting



Development Policies

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- Revenue recognition regarding contributions:
 - ▣ Unconditional
 - ▣ Conditional
 - ▣ With donor restrictions
 - ▣ Without donor restrictions

- Gift acceptance policies

Development Policies

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- Acknowledgement letter
 - Organization's name listed
 - Description of donation
 - Statement “no goods and services provided in return”
(or good faith estimate of goods provided to donor)
 - Submitted in writing by 1/31 of the year following donation
 - Policy should specify that the organization should not determine value of in-kind gifts (donor responsibility)



Encouraging Compliance

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- Tone is set from the top and expected at every level

- Create “contract summary” for all new contracts/awards
 - ▣ Make this easy to understand so that all employees working under the contract can be a part of ensuring compliance

- Create checklists
 - ▣ Employee Files
 - ▣ Grant files
 - ▣ Case files/Client files
 - ▣ Electronic scanning (double check both sides of documents retained)

Encouraging Compliance

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- Create compliance calendar
 - ▣ Due dates on performance reporting
 - ▣ Review solicitations in other states
 - ▣ State B&O tax

- Periodic check in meetings with key employees

- Finance Department = “The Enforcer”
 - ▣ Compliance is the responsibility of the entire team
 - ▣ Gather non-finance team members input to establish procedures that will work for them and help ensure policies are followed



Tracking Contracts/Awards

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- Classes vs Projects vs Customers
 - ❖ Classes – this should relate to function (programs, management & general and fundraising)
 - ❖ Projects and/or Customer – Can be used to track revenue and costs billed to an award
 - ❖ Allocate costs that are allowable to the customer or project to provide clear detail of expenditure of the award
 - ❖ May simplify period billing to contracts/awards



Tracking Contracts/Awards

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The image is a YouTube video thumbnail. On the left, it features the QuickBooks logo (qb) and the text 'How to set up and use projects in QuickBooks Online'. Below this is a dark blue box with 'HOW TO' in green, and a white box with 'QuickBooks Online' in blue. The main title 'Setting up & using projects' is in large, bold, dark blue font. A red YouTube play button is centered. On the right, a laptop screen displays the 'Projects' interface in QuickBooks Online. The interface shows two projects: 'New Fence' by Jay Yu and 'New Deck' by Chris Pepper. Each project has a progress bar and financial data for Income and Costs.

PROJECT / CUSTOMER	Income	Costs
New Fence Jay Yu	\$3,000.00	\$2,347.55
New Deck Chris Pepper	\$2,000.00	\$1,000.00

Watch on YouTube

Tracking Contracts/Awards

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What if We Need a Single Audit?

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- ❖ What is a SEFA and why are my auditors asking for it?
 - ❖ Schedule of Expenditure of Federal Awards
 - ❖ Prepared by management listing the organization's expenditures of federal assistance for the fiscal year by
 - ❖ Federal agency
 - ❖ Grant number
 - ❖ Amount
 - ❖ The auditor uses this as the starting point to determine if a Single Audit is required and which federal program(s) will be tested

What if We Need a Single Audit?

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- ❖ What else will the auditor ask for?
 - ❖ The award documents (agreement/contract)
 - ❖ Complete detail of all expenses charged to the program (general ledger detail for the program/project)
 - ❖ Supporting documentation for a sample of expenditures
 - ❖ Your approved indirect cost rate, if applicable
 - ❖ Various other items based on the requirements of the award



What if We Need a Single Audit?

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❖ Compliance Supplement

❖ [Office of Federal Financial Management | OMB | The White House](#)

❖ The compliance supplement can help you understand the specific requirements of your federal program

❖ Watch for “special” requirements that may apply to your specific programs

What if We Need a Single Audit?

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- ❖ Are Single Audits available to the public?
 - ❖ Yes
 - ❖ [Federal Audit Clearinghouse - Home \(census.gov\)](https://www.census.gov/auditclearinghouse/)
 - ❖ All Single Audits are filed with the Federal Clearinghouse and are available to view by the public, including all findings that the auditor may report
 - ❖ If findings are reported, management includes a corrective action plan explaining how the matter will be remedied

Information Returns

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- ❖ What are some of the items disclosed in the 990 that are not in the financial statement?
 - ❖ Additional program descriptions
 - ❖ Policies
 - ❖ Board member and key management names and compensation
 - ❖ Information about governance
 - ❖ Expanded detail for special events and gaming
 - ❖ Many, many questions and schedules



Information Returns

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❖ Compensation Disclosures

- ❖ Top management individuals (Executive Director/CEO, Finance Director/CFO)
- ❖ Key employees (for salaries over \$150,000)
- ❖ Highest paid employees (for salaries over \$100,000 not included in categories above)
- ❖ Former officers, key employees, highest paid employees



Information Returns

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- ❖ Schedule A
 - ❖ Public Support Test
 - ❖ Using averages over the current and prior four years, computes the % of revenue attributed to public support
 - ❖ Limits on large “private” donations (individual, private foundations, for-profit entities, nonprofits that are not classified as charitable)
 - ❖ Generally, need to be over 33 1/3% to maintain status as charitable

Information Returns

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❖ Schedule B

- ❖ Contributors over \$5,000 or 2% of contributions, if eligible
- ❖ Not public - Be sure to exclude this schedule when sending to requesters other than taxing agencies

❖ Conservation Easements

- ❖ Don't forget modifications



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QUESTIONS?



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