





PAUL D. JOYCE, CPA STATE EXAMINER

Indiana's State Examiner and the agency head for the State Board of Accounts, Paul Joyce coordinates and manages the post-audits and examinations of over 4,000 state and local governmental entities in Indiana.

WALK THROUGH AN AUDIT

INDIANA LEAGUE OF MUNICIPAL
CLERKS AND TREASURERS
2024 INSTITUTE AND ACADEMY
MARCH 17, 2025





TOPICS

- Types of Engagements
- The Audit Process
- What to Expect During an Audit
- Official Response
- Repeat Findings & Corrective Action Plans (CAPs)
- Procured Audits
- Federal Single Audit





Types of Engagements



Federal Single Audit

- Expenditures of Federal assistance exceeding \$750,000

Audit

- Performed for all units

Small Compliance Engagement

- Performed for units that do not have outstanding debt
- Have revenues confirmed by outside sources
- Have a limited amount of funds



Goals of an Engagement

- Provide Opinions on Financial Information Presented by Auditee
 - Unmodified, or “clean” opinion, lets readers know the information is materially correct
 - Modified opinion lets readers know there are issues that need to be taken into consideration when it comes to the information presented
- Provide Reader with Noncompliance of Federal Requirements for Major Programs and State Requirements
 - Federal: Section II (Financial Statement Compliance); Section III (Major Program Compliance)
 - State: Audit Results and Comments (significant or impactful to the unit and/or public)
- Provide Management with less Significant Noncompliance of State Requirements
 - Management Letter – General Noncompliance with State Statute or SBOA Compliance Guidelines Manual



○ ○ ○ ○ *The Audit Process*



- Entrance Conference
- Identification of Risks
- Internal Controls
- Testing
 - Substantive
 - Compliance
- Compile Findings
- Determine Opinions
- Exit Conference





What to Expect During an Audit



Prior to the start of an audit



SBOA Engagement Strategies will send the following information via email (EngagementStrategies@sboa.in.gov):

- Financial Statement
- Notes to the Financial Statement
- SEFA
- Notes to the SEFA
- Form 13
- Form 7
- Form 9

Preliminary Audit Work

Gateway Monthly and Annual Engagement Uploads

- Board minutes
 - Read board minutes for the audit period up through the present time.
- Bank reconcilements
 - Ensure all bank accounts and all investments reconcile to the AFR ending Cash and Investment Balance.
- Financial Statements
 - Verify amounts reported on the Financial Statements agree with fund reports from the unit ledger.



Entrance Conference



Who is invited?

- Those charged with governance:
Council President or another council member (No quorum)
- Management:
Fiscal Officer: Clerk-Treasurer or Controller



What is discussed?

- Introduction to the Field Examiners that will be working on the audit
- General overview of:
 - Audit Objectives*
 - Management Responsibilities*
 - Audit Procedures (general, internal control, compliance)*
 - Informing Management of general records that will be requested*
 - Start date & expected issuance date*
 - Estimated Cost*

Entrance Conference Cont.



Continuing Expectations

- Provide and inform attendees with a method to allow for continued communication throughout the audit process

Field Examiners will:

- Explain the objectives of the engagement
- Explain what responsibilities management has
- Inform management of audit fees
- Answer any questions regarding the audit process



Identification of Risks

Risks Associated with Significant Audit Area

- FEs will assess key areas
- These areas can be Cash, Receipts, Disbursements

How the City/Town addressed the risks

- FEs will identify what internal controls or mitigating controls that the unit has put in place to ensure the financial statement information is materially correct

How will the risk impact audit procedures performed

- FEs will determine what areas they can rely on the internal control system and what areas will need to be reviewed in further detail

Internal controls



- The field examiner assigned will need to determine what controls are in place throughout the office and whether they have been properly designed and implemented.
- This can be done through:
 - ✓ Inquiry with official and staff
 - ✓ Observation of the process
 - ✓ Inspection of documents
- Field examiner will communicate any deficiencies found.
- Policies and Procedures that have been instituted will be tested to ensure that they are sufficient and are working as intended.





Testing

Field Examiners will perform procedures to determine if financial statement information is materially correct. All Cash, Receipts, and Disbursements should be represented on the Financial Statements.

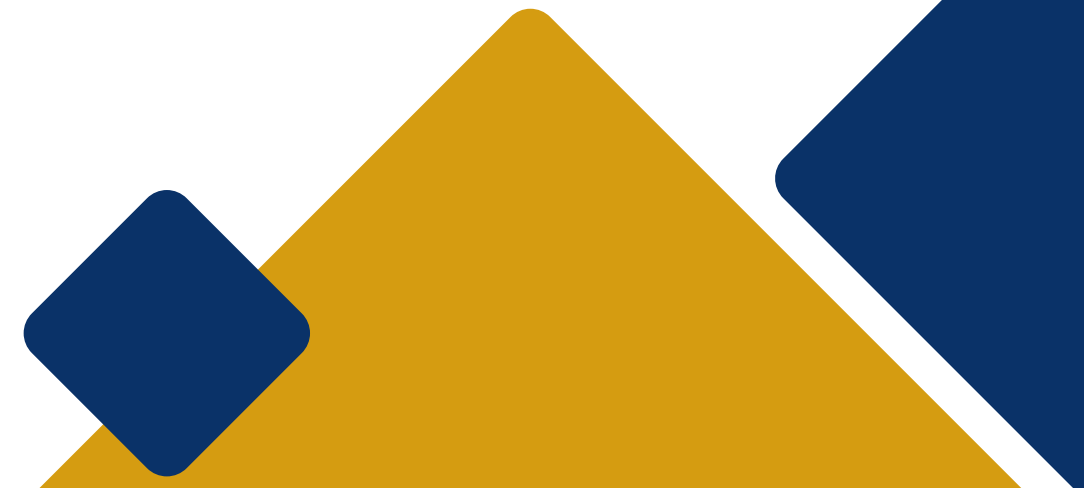


Testing - Substantive

CASH

Bank Reconcilements

- ❑ December Bank Statement should reconcile to the Cash and Investment Totals for all funds noted in your Annual Financial Report (AFR) for the year end.
 - Should include all bank accounts
 - Should include all investments



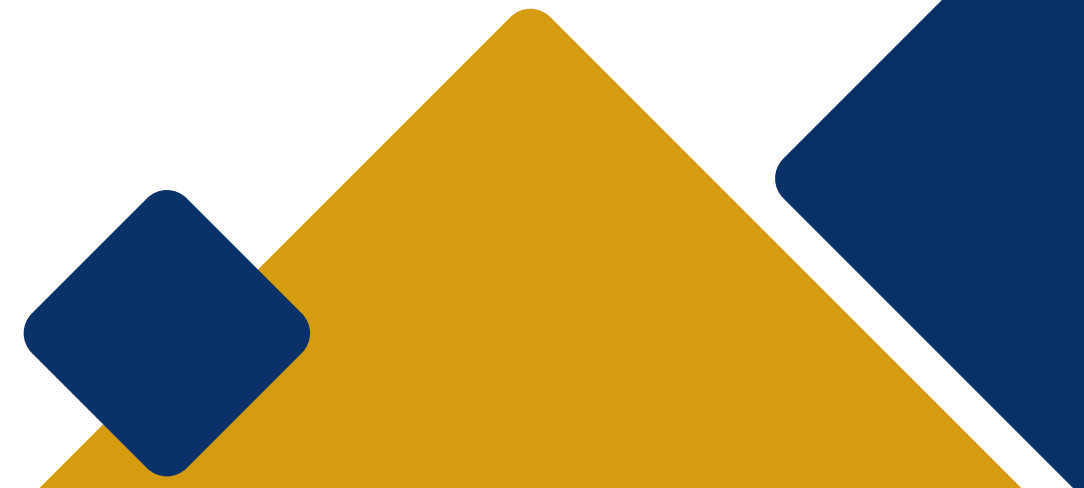
Testing – Substantive Cont.

RECEIPTS

- Money was received and belongs to the City/Town
- Properly recorded and for correct amount
- Recorded in the correct accounting period
- Recorded in the proper fund

DISBURSEMENTS

- Actual obligation belongs to the City/Town
- Properly recorded and for correct amount
- Recorded in the correct accounting period
- Recorded in the proper fund



Compliance Testing:

Field Examiners will perform procedures to determine that the City or Town is following laws and regulations.

Receipts:

- Recorded in a timely manner
- From an allowable source
- Posted to correct fund

Disbursements:

- Voucher or attached invoice is adequately itemized and approved by person receiving goods/services.
- Recorded in a timely manner
- Certified by the fiscal officer
- Approved by governing board
- Proper use of funds
- Voucher, Purchase Order, Supporting Documentation, and Check



Testing - Compliance



Compliance Testing cont.

Payroll:

- Rate of pay agrees to salary ordinance / resolution / contract adopted by governing board
- Attendance / time records maintained (salaried & hourly)
- Claim / Time record approved
- Recorded in a timely manner
- Proper use of funds
- Payee not paid in advance of hours worked



Testing - Compliance



Items/Records needed for audit



- Financial Ledger

- Bank Statements and Reconcilements

- Claims/Receipts/Supporting Documentation

- Minutes of Meetings (up to current date)

- Ordinances / Resolutions

- Contracts

- Policies and Procedures (includes internal controls)

- Financial Reports (Filed with State & Federal)

- Grant Documents (Agreements etc...)





Subsequent Events



What Happened After The Audit Period:

- Debt Issued
- Change in Financial Situation
- Lawsuits
- Any Other Situations with Material Impact



CONCLUDING AUDIT WORK

Determine Opinions



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

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ROOM E418
INDIANAPOLIS, INDIANA 46204-2769
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF ██████████ COUNTY, INDIANA

Adverse and Unmodified Opinions

We have audited the accompanying financial statement of the City of ██████████ (City), which comprises the financial position and results of operations for the period of January 1, 2022 to December 31, 2023, and the related notes to the financial statement as listed in the Table of Contents.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse and Unmodified Opinions* section of our report, the financial statement referred to above does not present fairly, the financial position and results of operations of the City for the period of January 1, 2022 to December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the respective financial position and results of operations of the City, for the period of January 1, 2022 to December 31, 2023, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Basis for Adverse and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statement* section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matter Giving Rise to Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 to the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.



Compiling Findings

- 1) **Section II** – Findings related to the financial statements
- 2) **Section III** – Findings related to a major program
- 3) **Audit Results and Comments** – Significant Noncompliance with statute or an SBOA uniform compliance guideline
- 4) **Management Letter** – Not significant noncompliance with statute or an SBOA uniform compliance guideline – Not public
- 5) **Discussion Only** – Immaterial noncompliance with statute or an SBOA uniform compliance guideline – Not public

Communication



- Field Examiners will discuss any issues throughout the audit process
- No surprises at Exit



Exit Conference



Who is invited?

- Those charged with governance:
All of Council is invited
- Management:
Fiscal Officer: Clerk-Treasurer or
Controller
Official Responsible for Findings

What is discussed?

- Field Examiners will discuss any issues found that will be in the Audit Report
- Clerk-Treasurer and Council will be informed of issues
- An official response can be made to appear in the report as well
- Corrective Action Plans needed

Official Response



At exit, you will be asked if you would like to provide an official response to the results and comments in the form of a letter to be bound in the report.

- Written comments in the public report
- Included as part of the report
- 10 days to submit the official response
 - officialresponse@sboa.in.gov



Repeat Findings



- Any Findings that appeared in the prior report are called a repeat finding and a corrective action plan (CAP) is required to be submitted through our website.
- Instructions are found on the SBOA website:
<https://www.in.gov/sboa/files/CAP-Instructions.pdf>
- The corrective action submitted through our website is **not** part of the official report.

Corrective Action Plans (CAPs)



Packet will be given at exit conference

- Templates

10 days to respond

- Can request additional time

Six months to implement

- Can request additional time

Corrective Action Plans (CAPs) cont.



SBOA review and approval

Report when implementation is complete

SBOA follow up

- Send in documents
- On site follow up

CORRECTIVE ACTION PLAN FOR



Report period:	
Title of result and comment:	
Contact person Responsible for Corrective Action:	
Contact's Phone Number:	
Contact's Email Address:	
Views of Responsible Official:	
Description of Corrective Action Plan:	
Anticipated Completion Date:	
If applicable: Document reason issue will NOT be corrected within 6 months:	

Audit Reports



- Audit Reports are sent to:
 - ✓ Current and Prior Official(s) examined
 - ✓ President of governing board
 - ✓ Other requested officials
- Audit Reports are posted to our website:
 - ✓ <https://secure.in.gov/apps/sboa/audit-reports/#%2F>

Audit Report Filings

This index of Audit Reports issued by the Indiana State Board of Accounts is updated each day with reports released the previous day. If you wish to receive a copy of an audit report that is not available for download, please contact our office at (317) 232-2513. The cost of copies of audit reports is ten (10) cents per page. To speed up the process, have the report file date and number available when calling. These items can be obtained from the results of this search.

SEARCH ⓘ

AUDIT YEARS ⓘ

TO

AUDIT TYPE ⓘ

COUNTY ⓘ

UNIT TYPE ⓘ



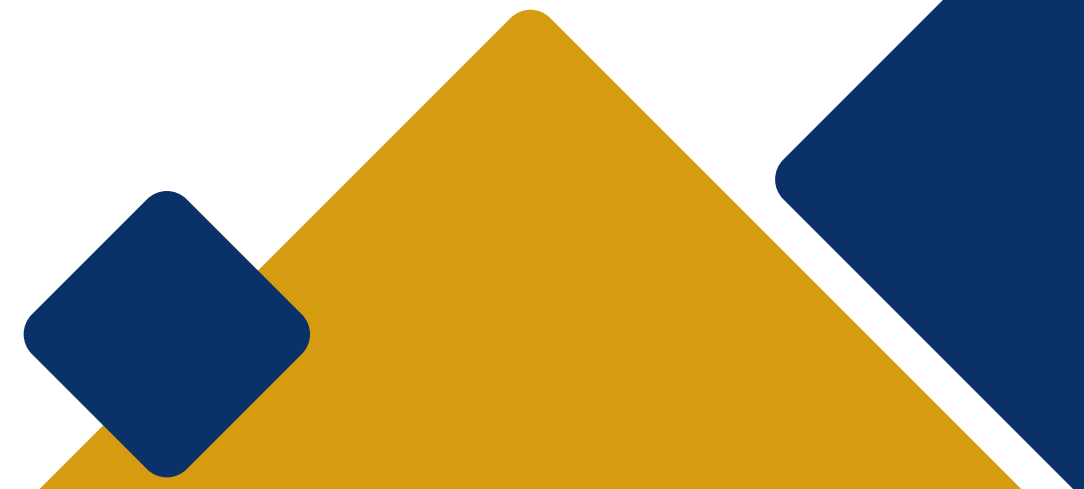
SBOA RESOURCES

- Visit our website: <https://www.in.gov/sboa/political-subdivisions/cities/>
 - Corrective Action Plan (CAP) – Repeat Findings
 - Uniform Compliance Guidelines (Manuals)
 - Internal Control Manual
 - City and Town Manuals
 - Resource Library

PROCURED AUDITS

Procured audits are engagements that are contracted out to CPA Firms.

- ❖ How do we determine what units are procured?
 - This is determined by a comparison of staffing to engagements that must be completed during the upcoming year.
- ❖ Are units notified by SBOA that they will receive an audit from outside CPA firm?
 - Yes, the Clerk-Treasurer will receive and email from Procuredaudits@sboa.in.gov notifying your unit of the change.
- ❖ Do these engagements cost more?
 - No, the firms will charge based on SBOA rates.
- ❖ Do the CPA firms follow the same audit guidelines?
 - Yes, the firms follow SBOA guidelines.



Procured Audit Email Example



The communication is to notify you that your upcoming audit will be conducted by an independent audit firm, acting as a private examiner on behalf of the State Examiner, as allowed by Indiana Code. The decision to have your audit performed by a contract auditor was made based on current available agency resources and is only applicable to the upcoming audit.

UNIT_ID	UNIT_NAME	COUNTY_NAME	UNIT_TYPE	AUDIT_DESC	CATEGORY_DESC
68 001 00	CITY OF ██████████	Randolph	CITY	ANNUAL 2023	Regulatory Single Audit_Financial
68 001 01	██████████ WATER UTILITY	Randolph	WATER UTILITY	ANNUAL 2023	Utility_Single Audit Unit
68 001 02	██████████ WASTEWATER UTILITY	Randolph	WASTEWATER UTILITY	ANNUAL 2023	Utility_Single Audit Unit
68 001 00	CITY OF ██████████	Randolph	CITY	ANNUAL 2022	Other
68 001 01	██████████-WATER UTILITY	Randolph	WATER UTILITY	ANNUAL 2022	Utility_Other Unit
68 001 02	██████████ WASTEWATER UTILITY	Randolph	WASTEWATER UTILITY	ANNUAL 2022	Utility_Other Unit

Indiana Code Ch. 5-11-1 contains several provisions regarding the engagement of a private examiner. First, the State Examiner may allow the engagement of a private examiner to the extent the State Examiner determines necessary to satisfy the requirements of Ind. Code Art. 5-11. Ind. Code § 5-11-1-7(b). Second, a private examiner is subject to the direction of the State Examiner while performing examinations under Ind. Code Art. 5-11. *Id.* Third, if the State Examiner authorizes the engagement of a private examiner to perform an examination under Ind. Code Art. 5-11, the examination and report must comply with the uniform compliance guidelines established by the State Board of Account under Ind. Code § 5-11-1-24(a). Ind. Code § 5-11-1- 24(d).

The State Examiner has engaged the independent audit firm of **Crowe, LLP**, to perform your upcoming audit. Representatives of Crowe, who I have copied on this email, will be contacting you in the near future regarding the audit. They will be providing you with an engagement letter that will need to be signed and returned prior to the start of the audit and will be arranging for an entrance conference.

Crowe will also be providing a list of audit items that will need to be provided during the audit and will provide a link to their Upload Portal for you to upload the requested items. As a contractor, they will have access to and will utilize files that a unit has uploaded to Gateway as monthly and annual uploads.

It will be important for your unit to be responsive to their audit requests and return items by the date provided by them in order to ensure that they can complete your audit timely and in accordance with contract terms and your bond reporting requirements, if applicable. If you anticipate that your unit will not be able to provide Crowe with requested documents electronically please respond to this email with an explanation as to the reason(s) that the unit cannot do so.

Upon completion of the audit they will be arranging for an exit conference. The report will be reviewed and approved by the State Board of Accounts prior to being finalized and posted on our website as a public report. Upon issuance of the report, audit fees will be billed to you by the State Board of Accounts. **Consistent with statute, the daily rates will be the same as if SBoA performed the audit.** If you would like to receive an estimate of your audit costs we will provide that upon request.

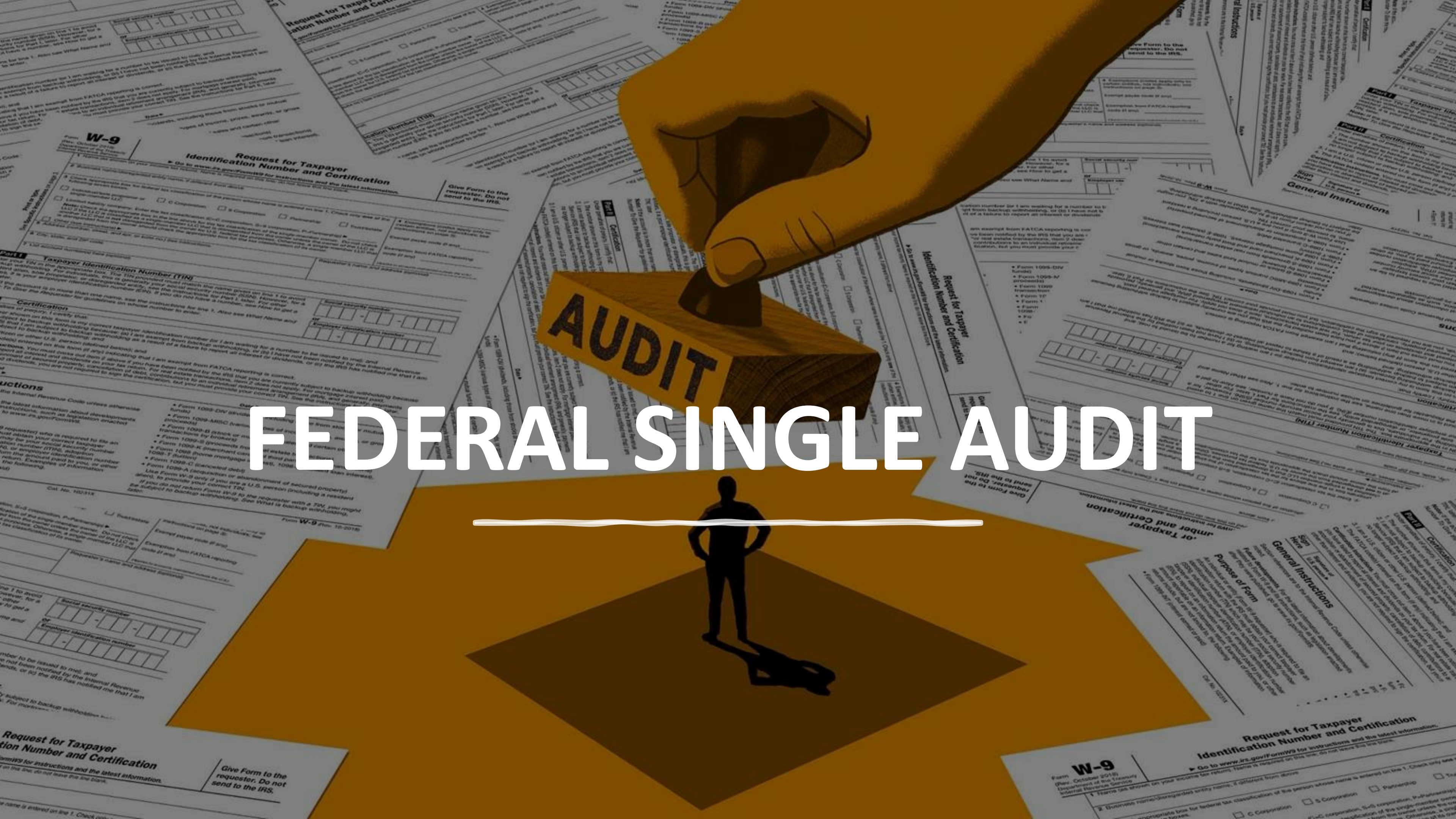
State Examiner Joyce requests your cooperation with representatives of Crowe during the course of the audit, just as you have always given our field examiners.

Please feel free to contact myself or another member of the procured audits team at procuredaudits@sboa.in.gov or our City Directors at cities.towns@sboa.in.gov with any questions you may have at any time throughout the audit.

Please respond directly to the Crowe representatives listed on this email with:

- the name, email, and phone number of the official who will sign the audit engagement letter. This is typically the Clerk-Treasurer or representative board member authorized to enter into a contract.
- the name, email, and cell phone number of the main contact who will be responsible for overseeing audit requests and providing information to the auditors. This will be utilized to set up initial access to the web portal.

FEDERAL SINGLE AUDIT



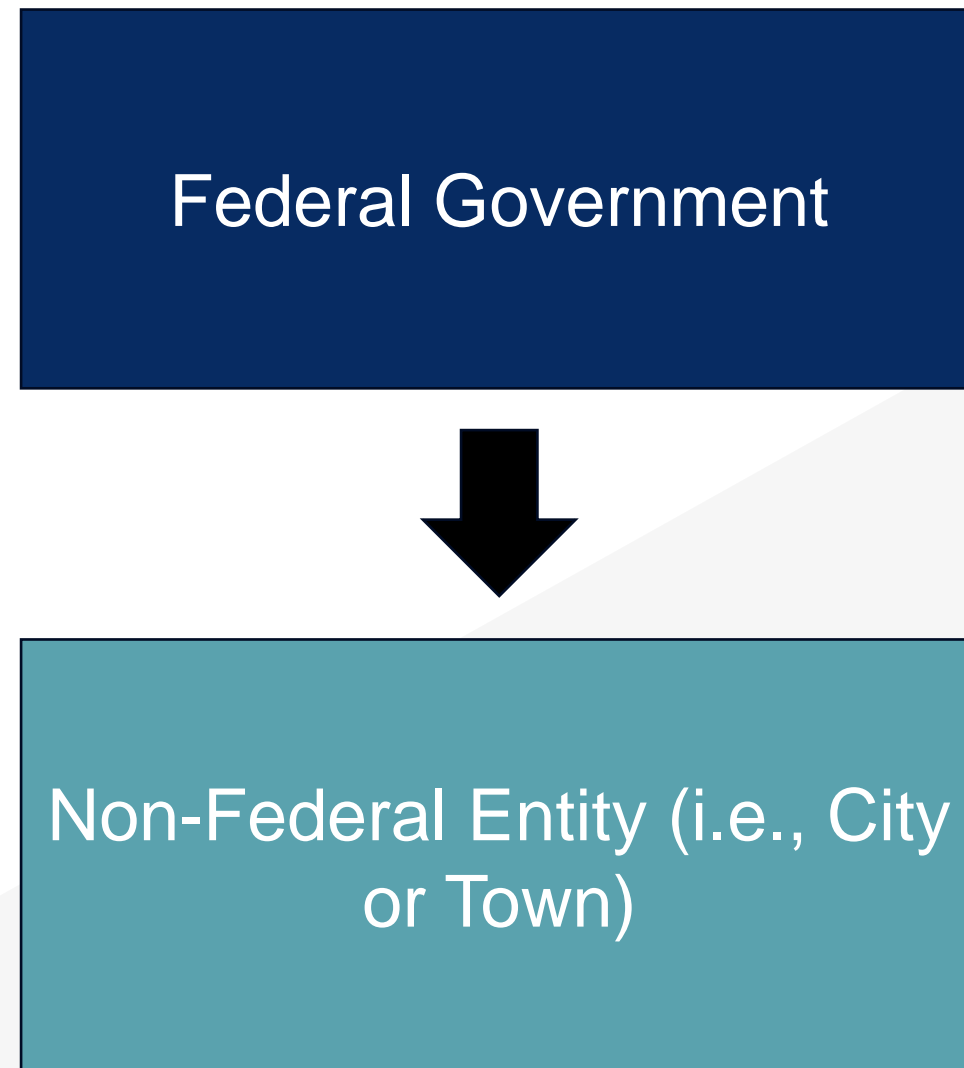
Federal Award Definition

Financial assistance that a non-federal entity receives directly from a federal agency or from a pass-through entity.

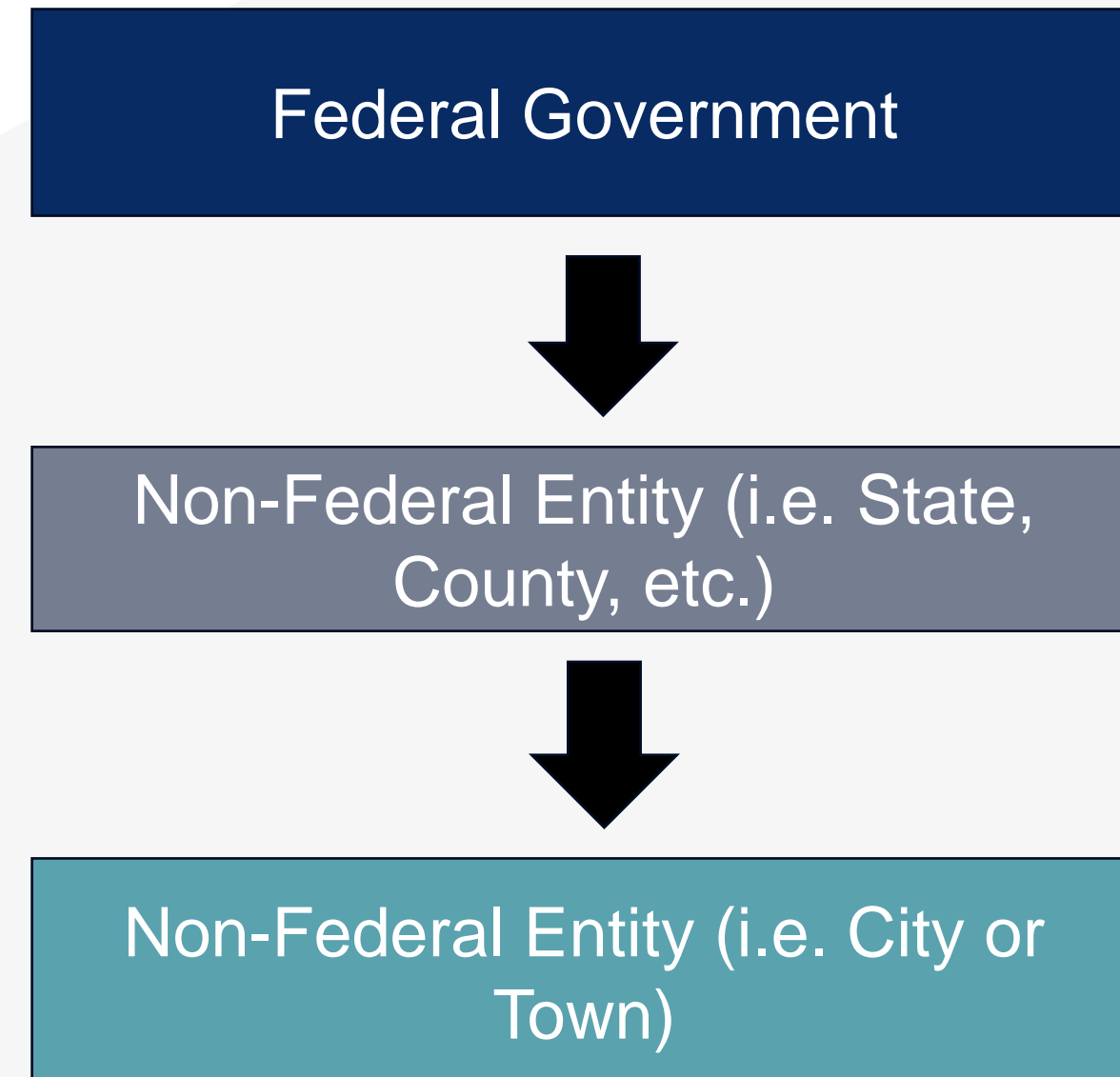
- ❑ Non-federal entity - Any entity that is not the Federal government.
- ❑ Pass-through entity – Any entity that receives money from a federal agency and awards that money to another entity (subrecipient) to carry out the objectives of the grant.

Federal Award Relationships

Direct Grant



Pass-through Grant



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Federal Award Forms



GRANTS



LOANS



NON-CASH ASSISTANCE

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Types of Financial Assistance from State

There are two types of assistance from the State of Indiana:

1. Federal assistance that is passing through the State, and
2. State assistance



How to tell the difference? ○ ○ ○ ○

If the assistance provided by the State is federal assistance, the State must identify it as a federal award. Required information includes, but is not limited to:

- Subrecipient name and unique entity identifier;
- Federal award identification number;
- Federal award date;
- Period of Performance and budget start and end dates;
- Amount of funds obligated;
- Assistance Listings number and title.



***Why it's
important to
know the
difference.***



Why it's important to know the difference

All federal assistance received must be reported on the Schedule of Expenditures of Federal Awards (SEFA)

INDIANA
Gateway

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2021

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u> Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii OCRA Cares Act Grant	Indiana Office of Community and Rural Affairs	14.228	B-20-DW-18-0001	\$ -	\$ 30,780
Total - Department of Housing and Urban Development				-	30,780
<u>Department of the Interior</u> Historic Preservation Fund Grants-In-Aid DNR Park Grant	Indiana Department of Natural Resources	15.904	FFY20-02	-	33,184
Total - Department of the Interior				-	33,184
<u>Department of Justice</u> Bulletproof Vest Partnership Program Bullet Proof Vest Program	Direct	16.607	CY2021	-	1,980
Total - Department of Justice				-	1,980

Why it's important to know the difference

Federal assistance has many requirements related to how the money can be spent.

- ❑ ALL requirements must be complied with.
- ❑ It is the award recipient's responsibility to know and follow the requirements in all situations.

Why it's important to know the difference

State assistance will also have requirements related to how the money can be spent.

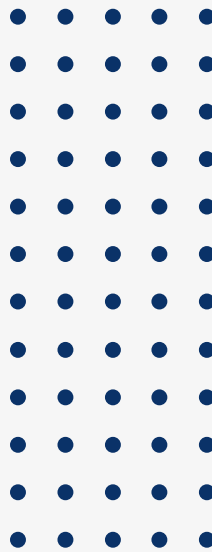
- ☐ This assistance is NOT reported on the SEFA.
- ☐ It may be monitored by the State awarding agency.

If questions remain...

About whether the award is federal assistance or state assistance;

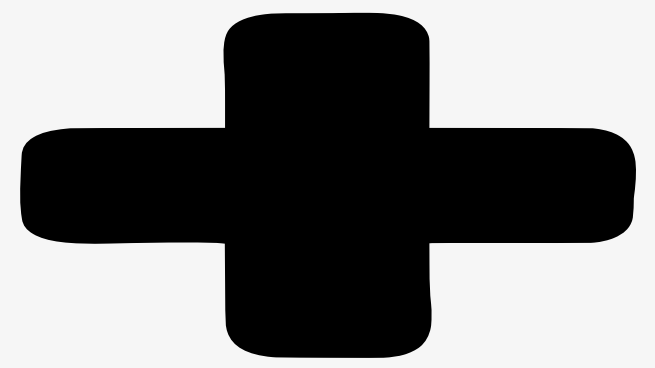
About any requirements of the award and how to comply with them;

*Contact the awarding agency



Single Audits - Definition

A single audit is an audit that includes both an audit of the financial statements and an audit of the federal awards received.



SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended December 31, 2022				
	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
J.S DEPARTMENT OF THE TREASURY				
Direct Award:				
COVID-19 - Coronavirus State & Local Fiscal Recovery Funds	21.027		\$ 1,060,000	
J.S DEPARTMENT OF TRANSPORTATION				
Passed through Indiana Criminal Justice Institute:				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	69A3752030000402INO	55,861	\$ 41,556
J.S DEPARTMENT OF JUSTICE				
Direct Award:				
Bulletproof Vest Partnership Program	16.607		1,915	
J.S DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Award:				
COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distributions	93.498		6,740	
J.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Awards:				
CDBG - Entitlement Grants Cluster:				
COVID-19 - Community Development Block Grants/Entitlement Grants/Special Purpose Grants/Insular Areas	14.225		52,070	52,070
Community Development Block Grants/Entitlement Grants	14.218		448,302	115,612
			500,372	167,682
			\$ 1,624,888	\$ 209,238

Single Audits – Federal Awards Audit

Audit of the SEFA:

- ☐ Internal controls over the preparation of the SEFA
- ☐ SEFA Testing
 - ❖ Information derived from or relates directly to accounting records
 - ❖ Mathematically accurate
 - ❖ ALN, program name, and awarding agency are correct
 - ❖ Federal awards expended are correct
 - ❖ Amounts passed to subrecipients, if any, are correct

Single Audits – Major Program Determination

Once the SEFA has been audited, a risk-based approach is used to determine which of the federal assistance programs will be audited as a major program.

- ❑ Major program: a program that is determined by the auditor to be of higher risk.

Single Audits – Major Program Testing

- ❑ Not all requirements of the federal award will be audited during the Single Audit.
- ❑ Auditors are instructed on which requirements to audit.
- ❑ Regardless of which requirements are audited, ALL requirements must be complied with.

Single Audits – Opinion

At the conclusion of the audit of federal awards, an opinion will be given as to whether the requirements audited were complied with.

- ☐ Material instances of noncompliance with federal award requirements are reported.
- ☐ Significant deficiencies and material weaknesses in internal control related to compliance with federal award requirements will be reported.

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Single Audit – Auditee Documents

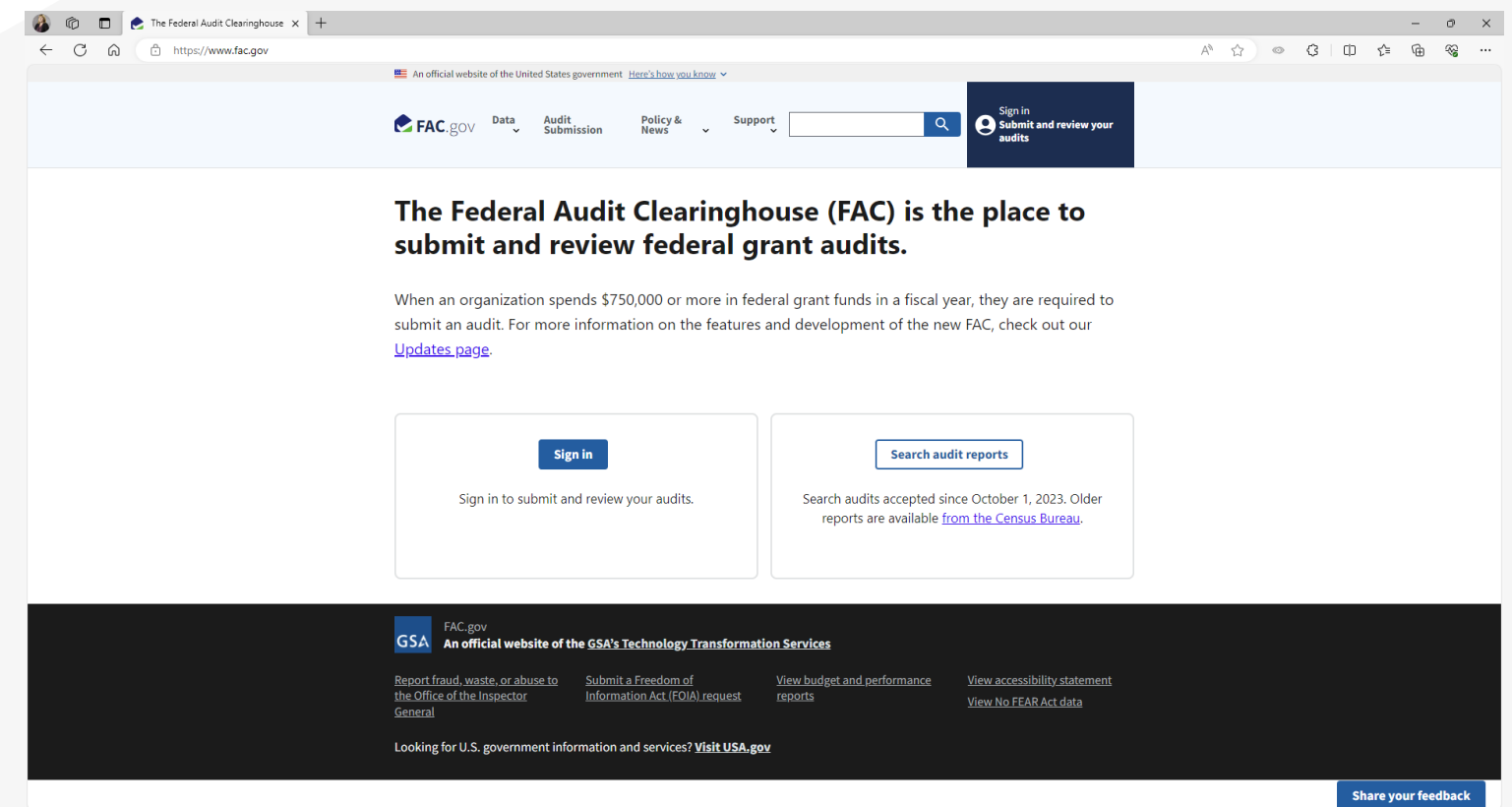
Summary Schedule of
Prior Audit Findings
(SSPAF)

Corrective Action Plan
(CAP)

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Single Audits – Federal Audit Clearinghouse

- ❑ Once the audit is complete, all information will be entered on the Federal Audit Clearinghouse.
- ❑ Information entered must be certified by both the auditee and auditor.
- ❑ Instructions on how to complete this will be sent to the official when the report is ready to be released to the public.



Records to Maintain



Federal Audits – Records to Maintain

Records to maintain include but are not limited to:

- ❖ Grant Agreements
- ❖ Other contracts or agreements related to the award
- ❖ All claims and supporting documentation related to expending the federal funds

Federal Audits – Records to Maintain

Records to maintain include but are not limited to:

- ❖ All reports submitted to the federal agency or pass-through entity
- ❖ Ledgers recording the financial activity of the federal award
- ❖ Record of equipment purchased with the federal award

Federal Audits – Records to Maintain

Records to maintain include but are not limited to:

- ❖ Documentation on the method of procurement of goods or services purchased with the federal award
- ❖ Any monitoring reports provided by the federal awarding agency or pass-through entity
- ❖ Any other documentation that is related to the activity of the federal award

Questions?



Government Technical Assistance & Compliance (GTAC) Directors



Beth Goss

&

Mitch Wilson



Cities.Towns@sboa.in.gov



(317) 232-2513