

How to Prepare for Your Financial Audit

Presenters

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ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

Every audit firm is different in processes and every audit is designed slightly different.

Every district is different in what works for them, there is almost always more than one way to do things.

Compliance

What is the compliance portion of the audit?

- Testing for compliance with State and Federal grant requirements
 - Are you allowed to purchase a new HVAC system with Title I funds?
 - Typically, black and white

When is this portion of the audit completed?

- Typically, this portion of the audit will be completed prior to year end.
 - This helps identify potential issues but if they are corrected, not become questioned costs, saving the district money.

Year end PBC Letter



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The following is a listing of the items that we will need in order to complete our audit for the year ended June 30, 2025. If you could please upload as soon as possible after year end. This will enable us to get started on preliminary work, and ensure all reports will work prior to July payroll being processed.

1. Individual School Bank Reconciliations.
 - a. Each school's June 30, 2025 bank reconciliation. We will need a copy of the reconciliation as well as copies of all reconciling items. (i.e. copies of the lists of outstanding check, etc.)
 - b. June 30, 2025 Receipts and Disbursements report, all pages.
 - c. First page of the June 30 bank statement that shows the ending balance.
2. FY 2025 13th month Trial Balance for all funds in Excel. We understand this will likely change due to various year end journal entries. We will request a new report once you have finalized all entries. **Please provide this by July 7th if possible.**
3. Detailed final budget (including revenue and expenditure for all funds) ran from accounting software or spreadsheets (in excel).
4. Transaction activity report for all funds. We'll need this report for February-June 2025. The report should **exclude** payroll and benefit object codes 100-299. Please provide this report in excel in a format that can be filtered. **This report can be pulled from LINQ or App Garden Spreadsheets.** In LINQ please be sure to include the vendor name (Go to reports, check register, Select detail & by bank, fund, and PRC. Export as Excel-Data Only). In App Garden this should be the "Budget with Details" file (be sure to include child nutrition and send the entire file).
5. Payroll check register report for all funds. This report should provide employee name, account #, pay date, check / DD #, gross and net pay. Please provide this report for the entire 2024-2025 year in Excel in a format that can be filtered. **This report can be pulled in LINQ or App Graden Spreadsheets.** In Cooks Spreadsheets this should be the "Payroll History" file (be sure to include child nutrition).

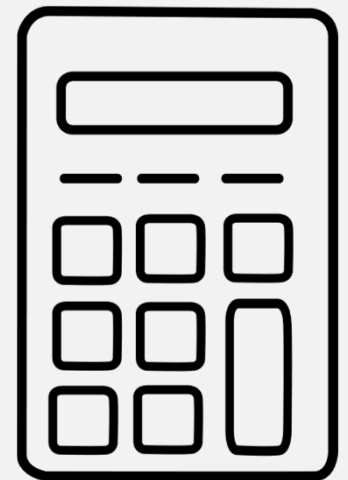
Bank Reconciliations

Bank reconciliation problems are one of the biggest challenges that can take time to fix. This is especially important if your onsite visit is in September or October.

Bank reconciliations should be completed timely each month (this is one of our most common findings).

Make sure any outstanding checks at year end have or will clear the bank account. If they haven't, why not? Do they need VOID and re-issued or are they erroneous?

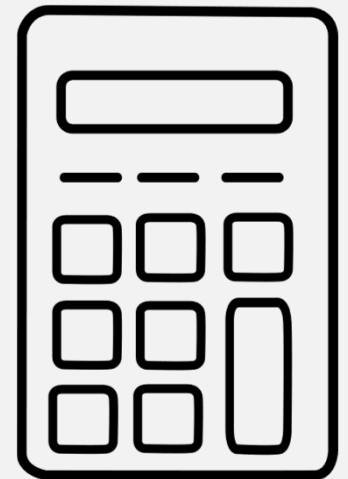
Problems could impact fund balance/budget, or if related to state bank account, could result in lost funds.



Bank Reconciliations

Common “pitfalls”:

- Money not being wired between State/Federal and Local bank accounts for BUDs.
- Zero out not being posted in the correct month.
 - Post in the month in which they are attributable (i.e. post the January zero out, which clears in February, in January.
- Denied BUDs not being cleared properly.
- Failure to follow up on reconciliation differences.
- Not completing bank recons timely.
- Not having someone PROPERLY trained to complete them.
- Not having a set process for completion.



Budget

Find out when your last board meeting before June 30th is

Most boards will have an end of June board meeting for budget amendments. This should only be for “clean up” amendments NOT for appropriating fund balance.

Check for any budget overages

Make sure you leave room for accounts payable entries, anything that another entity paid for but will need recorded on your books (ex. The state pays for school buses but they get recorded on the districts books. Capital Outlay is often paid directly by the county).

Watch Child Nutrition, many budget findings occur in Child Nutrition.

Budget

Budget in accounting system

Make sure the budget in your accounting system matches the budget plus amendments that your board passed.

Budget Amendments

Make sure budget amendments are done at the same level that the budget is past.

Make sure budget and amendments revenue = expenditures.

Accounts Receivable

After year end create a listing of all receipts that were reimbursements for expenditures before June 30th or should have been prior year revenues.

Tip

Look at the prior year receivable and payable listing and run a report of checks received and paid in July/August to be sure you have everything and are consistent (utilities).

Accounts Payable

After year end create a listing of all invoices that were for services or products received before June 30th. On capital watch for when services were performed not necessarily invoice date.

Fixed Assets

ADDITIONS

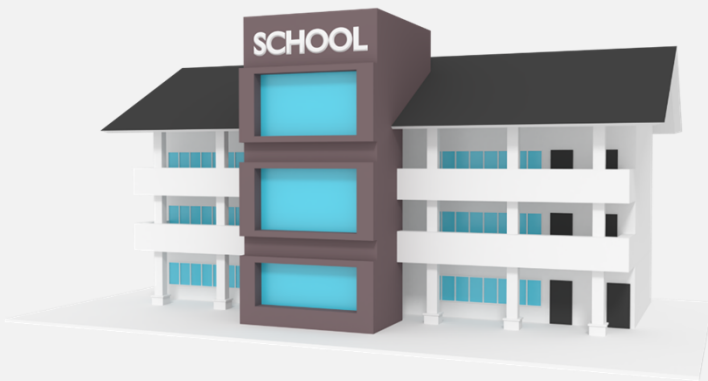
- Record all additions and generate listing
- Double check listing by reviewing expenditures coded to capital outlay codes.
- Never add to a closed year.

DISPOSALS

- Record all disposals and generate listing
- Never dispose to a closed year.

DEPRECIATION

- Run preliminary depreciation report.
- Do not finalize depreciation before auditors review.



Tips

- Review capital outlay expenditures from GL to be sure you have captured everything in fixed assets
- If you do depreciation via excel or manually, make sure if you had an asset put in service at the end of the prior year that you are capturing a full year of depreciation in the current year
- Make sure you have recorded all information required for federal fixed assets
- Make sure you are only recording fixed assets above your fixed asset threshold (everything else should be in inventory)
- Make sure and record child nutrition assets in the child nutrition fixed asset listing even if it was paid for out of another fund.
- Don't adjust assets in closed years without taking to your auditor (ex. Adding a new asset or disposing of an asset with a prior year date after audit)

Balance Sheet

Review balance sheet accounts for anything unusual or doesn't make sense.

Know what is in all of your balance sheet accounts (and have details).

Research any balance sheet errors (ex. Health insurance deposit made to one account but payment made from a different account)

Don't forget Child Nutrition

Leave Balances

- Run annual leave balance reports before and after the roll to sick leave.
- **NEW STANDARD – Sick Leave**
 - Effective 7/1/2024 (FY2025 audit) Sick Leave balances will get added to compensated absence liability.
 - All districts will have a prior period adjustment in FY2025 audit to account for 7/1/2024 balance.
 - Run a report of sick leave balances after the roll but export to EXCEL
 - Sick leave will need broken into 2 buckets. Cooks Spreadsheets payroll report has a great report that breaks this down (not supported by LINQ districts)
 - % used
 - All other sick leave uses
 - % converted to years of service
 - % forfeited
 - The sick leave liability will be the value of sick leave liability plus FICA and retirement multiplied by the historical % of sick leave that is used.

Leave Balances

- Example

EE Number	Name	<u>Beginning</u>		<u>Earned</u>		<u>Used</u>		<u>Ending</u>	
		Balance	Liability	Balance	Liability	Balance	Liability	Balance	Liability
121888	Employee Name	110.50	\$2,195.64	96.00	\$1,907.52	124.00	\$2,463.88	82.50	\$1,639.28
			\$46,151,863.35		\$6,359,018.41		\$5,632,372.89		\$46,878,509.52

- Total ending liability (\$46,878,510 * 1+ current year FICA and retirement (gross up) * average percent of sick leave actually used)
- Average sick leave used can be determined by the district, but typically consists of 3-5 years of data reviewing how much sick leave was used, transferred, and forfeited.
- Your auditor will likely assist with the calculation.

Final Journal Entries

Either at the end of the onsite work or after the auditor leaves, they will send you a list of journal entries that need posted. After these are posted they'll need an updated trial balance (in excel) and potentially other reports out of your accounting system to assist in building financial statements.

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To Record Pension/OPEB

5.2265.000.000.000.000.00	PENSION LIABILITY	235,721.00	0.00
5.2610.000.000.000.000.01	DEFERRED INFLOWS	104,760.00	0.00
5.1810.000.000.000.000.01	DEFERRED OUTFLOWS	25,603.00	0.00
5.2610.000.000.000.000.02	DEFERRED INFLOWS	229.00	0.00
5.1810.000.000.000.000.02	DEFERRED OUTFLOWS	180.00	0.00
5.1800.000.000.000.000.00	OTHER POST-EMPLOYMENT BENEFITS (OPEB) ASSET	0.00	917.00
5.1810.000.000.000.000.00	DEFERRED OUTFLOWS	0.00	7,290.00
5.2266.000.000.000.000.00	OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY	0.00	62,315.00
5.7200.035.223.000.000.00	PENSION EXPENSE	0.00	113,415.00
5.2610.000.000.000.000.00	DEFERRED INFLOWS	0.00	182,556.00
Total		366,493.00	366,493.00

Review Financial Statements

If the auditor is preparing the financial statements, the district is required to review the statements and accept responsibility. If you have questions, ask the auditor.



Common Internal Control Findings

- Not completing timely bank reconciliations
- Large balance sheet accounts that aren't reconciled or don't know what they are
- Over budget
- Not properly tracking and paying retirement
- Not having proper segregation of duties
- Using restricted funds for an unallowable expenditure
- Budgeting more than available in unrestricted fund balance
- Not passing budget amendments at the same level as the original budget

Common Internal Control Findings

- Budget posted in the general ledger system not matching the budget passed by the board
- Not properly reporting or paying payroll taxes
- Late submission of an audit to the Federal Audit Clearinghouse
- Not having sufficient approval or pre-audit process
- Not enrolling eligible employees in the state retirement system

When Items are Identified

- Verbal communication with Finance Officer or Finance Officer and Superintendent
- Management Letter - Separate letter issued and presented to the board
- Finding - presented to the board and part of the financial statements
 - Significant Deficiency
 - Material Weakness

How to handle it?

- Figure out the cause of the issue
- Put controls in place to ensure it doesn't happen again
- Make sure staff is aware and follows new procedures
- Communicate what happened and how it was or will be resolved to the Superintendent & board
- Respond to any state or federal inquiry regarding the finding with support around what has been done to resolve the finding

Keys to a Smooth Audit (summarized)

- Provide ALL items requested on the PBC lists.
 - If unsure of what an item on the PBC list is, ask the audit.
- Send/Upload items PRIOR to auditor arriving onsite.
- Review EVERYTHING prior to sending/uploading to auditor.
- Be up-to-date on bank AND account reconciliations.
 - Should be done monthly throughout the year.
- Having supporting documentation for ALL balance sheet account balances.
- Reconcile County revenues w/ the County throughout the year.
- If unsure of something, ask BEFORE it becomes a problem.

What's New?

- GASB 101 – effective for the 2024-2025 fiscal year.
 - Requires that sick leave now be included in the compensated absences liability.
- Type A threshold changes – effective for the 2025-2026 fiscal year.
 - Federal AND State thresholds are changing to \$1 million. Currently \$750,000 and \$500,000 respectively.
 - Federal threshold is for district's receiving grants totaling \$34 million or less. For district's receiving more than \$34 million in Federal grants, there will be no change.
 - Total of State grants will NOT impact threshold.

Thank You!

Presenters

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