

# Coffee Shop Audit

Grab a cup and lets talk about Audit Preparation




## Overview of the Audit

What are the different types of audits ? How are they different?


Audits what are they good for?

How to best prepare for the audit.




## How Make an Auditor Smile

A mapping of funds to the FDS programs - what funds belong in which FDS column	What accounts belong on which FDS lines.	We as auditors need a map (document, document, document)
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## Audit Types



## First Urban Legend of Auditing

- Hi we are glad you are here (client)
- We are here to help (auditor)
- ▶ Generally first two lies of any audit. But those statements should be true not lies.




## Types of Attestation Services

- Audits
  - Single Audit (> \$750,000 SEFA)
  - "Yellow Book" GAS Audit
  - Financial Statement Audit
- Reviews
- Agreed Upon Procedures (FDS)



## Audit Services

- How many think the Auditor is here to correct your books?
- How many think the Auditor is responsible for the Audit Report?
- How many think the Auditor is responsible for detecting fraud?
- Opines
  - the Financial Statements are fairly stated in conformity with the GAAP
  - the notes and supplemental information is complete and accurate
  - No fraud, waste or abuse came to the auditor's attention



## Independence


In fact - CANNOT

- be owner of entity
- have financial ties to entity
- audit their own work

In appearances -

- length of time auditor has audited
- large fees
- dominating client

Only thing an auditor has is his/her INDEPENDENT OPINION



## Skills, Knowledge and Experience (SKE)

- Auditor is required to document client's (SKE)
  - Accountant had degrees or titles such as CPA
  - Accountant has years of experience in the industry
  - Experience with Accountant performing services over several year
  - Continuing education attended by Accountant
- ▶ If the client doesn't have the SKE to oversee the audit staff, the auditor is not Independent. Sometimes this means you have to have a fee accountant to fill this knowledge and experience gap.



## Audit Types

- Financial Statement Audit
  - Financial statements and notes are fairly stated in accordance with GAAP
  - Materiality Concept
  - No control testing required can substantively test all accounts
- ▶ Issue opinion on whether the financial statements are fairly stated or issues a modified opinion on what is not fairly stated. Worst case they disclaim an opinion.



## Audit Types

- "Yellow Book" GAS Audit
  - Internal Controls of Financial Statements are tested to low level of Control Risk
  - Inherent Risk x Control Risk X Detection Risk = Audit Risk
    - IR is the nature of business or transaction
    - CR is risk controls won't detect material misstatement
    - DR is risk audit procedures will fail to detect material misstatement
- ▶ Issues opinion if the controls over financial reporting meet Governmental Auditing Standards (GAS) (low level of control risk) or issues findings on what controls did not meet that standard.




## Audit Types

- Single Audit / Uniformed Guidance (NO MORE A-133)
  - Controls over Compliance (12 points) are operating at low control risk
  - Tested 20%/40% of federal program
    - Type A programs (>\$750,000) at least within last 2 years
    - Type B programs (under \$750,000) may never be tested
  - Risked based approach
- ▶ Issues opinion if the controls over compliance meet Uniform Guidance requirements (low level of control risk) or issues findings on what controls did not meet that standard.




### Audit Types (12 Points of Compliance)

Activities Allowed or Unallowed	Allowable/ Unallowable Costs	Cash Management	Eligibility
Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement and Suspension and Debarment



### Audit Types (12 Points of Compliance)

- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions




### Single Audit Yellow Book Audited FS



### Purpose of Audit

- Opinion on fairness of financial statements and notes
- Controls over financial statements
- Controls over compliance

▶ These three opinions are the only part of the report that are the auditor's responsibility the rest of the report is the Authorities responsibility.




### Agreed Upon Procedures (FDS)

Auditor verifies for HUD

FDS data agrees to paper "hard copy" report

Issue opinion on whether the financial data schedule electronically submitted to HUD through REAC agrees completely to the "hard copy" report. Also verify several other key areas required by HUD match.




## How to prepare for the Audit

A little work now saves you findings later




### Second Urban Legend of Auditing


- ▶ The auditor is responsible for the completeness and accuracy of the financial statements and notes (including FDS).




### Auditor's Responsibility




- Test material balances for fairness and adequate disclosure
  - Best audits generally have no adjustments (should be goal)
  - A little work by agency lowers risks and reduces audit steps
  - Unaudited FDS should mirror Audited FDS, questions when there are significant differences
  - Consider a fee accountant if you don't possess the SKE



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### Assets




### Cash and Equivalents

- Cash, CD, Money Market, Investment
  - Year end bank statement with bank reconciliation (document review and when)
    - Test accuracy of reconciliation, test outstanding check and deposits in transit
    - Confirmation with bank of account balances
    - Test timeliness of reconciliation
    - Performed by separate staff from signor on account or custodian of checks
  - Separate bank accounts for restricted purpose such as security deposits, HAP, and reserves.
    - Verify cash agrees to related liabilities
  - Certificates of Deposit separated by < 90 days and > 90 days
    - GAAP considers CD with initial maturity < 90 days to be "cash equivalents" not investments



### Accounts Receivable

- Tenant Accounts Receivables (TAR)
  - Detail list of tenants with balance as of year end
    - Test accuracy list
    - Confirmation with tenants or trace to subsequent receipts
    - Performed write off separate from billing staff
    - Allowance calculated base on historical data
- HUD Receivables
  - CFP Expenses incurred but not Drawn Down
    - Same steps, but consider special draw at year end to avoid this AR.



## Prepaid Expense

- Generally Insurance
  - Detail list of insurance policies indicating policy amount and period. Show amount expensed and amount prepaid.
  - Test accuracy list
  - Trace amounts and period to original policy invoices



## Inventory

- Inventory and/or Refrigerators/Washers/Dryers
  - Detail list of each item identify purchase date, cost, amount on hand at year end (Doc Inspection)
  - Test accuracy list
  - Re-perform inventory counts (possibly)
  - Inspect warehouse for controls over assets



## Capital Assets

### Capital Assets (Buildings and Equipment)

- Detail list of each asset identify purchase date, cost, useful life and accumulated depreciation
- Test accuracy list, recalculate depreciation expense
- Test additions for proper recording and deletions for gains or losses
- Document review of list, physical inspection annually

### Work in Progress (CFP)

- List of CFP projects generally sort by Budget Line Items (BLI)
- Trace capital purchase to vendor invoices
- Review the hard vs soft nature of expenses
- Test close out procedures for CFP completed.



## Interfunds

- Interfunds / Intercompany Loans
  - Don't have them at year, live is much easier
  - Detail list of which funds owe which funds at year end (should balance)
    - Test accuracy list
    - Test for repayment within 12 months of year end
    - Red flags if interfund AR in public housing or HCV.




## Liabilities and Net Position




## Third Urban Legend of Auditing

- ▶ The Audit will detect fraud
  - ▶ 40% from tips
  - ▶ 14% from management review
  - ▶ 7% from accidental detection
  - ▶ 4% from audits




## Accounts Payable/Accrued Expenses

Accounts Payable

- Detail list of vendors payable identifying amounts, date of service and vendor name.
- Perform your own search for unrecorded items (first two months of next year)
  - Test accuracy list
  - Trace to vendor invoices verify material invoices are for current year
  - Perform a Search for Unrecorded Liabilities (SURL)


Accrued Expenses

- Generally utilities prepare a similar list to AP some even include in AP
- Review utility invoices to be sure you have 12 months of expenses



## Accrued Payroll

- Use common sense if its 1 or 2 days, not material. If its 5 out 10 days accrue half.
- Detail list of employee's identifying period worked and hourly rate paid
  - Test the accuracy of hours x rates and foot schedule
  - Trace pay rate to most recent payroll records
  - Recalculate the estimated taxes and benefits





## Security Deposits

- Detail list of tenants identifying tenant unit, amount and move in date
  - Test the accuracy of schedule and compare to the general ledger
  - Trace new move ins to rent rolls
  - Test move outs and elimination of deposits



## Unearned Revenue

- Detail list of tenants identifying tenant unit and amount
  - Test the accuracy of schedule and compare to the general ledger
  - Trace material prepaids to cash receipts



## Compensated Absences

- Detail list of employee's identifying hours accrued and hourly rate paid
- If there are max amounts be sure to limit accrual to the max amount
  - Test the accuracy of hours x rates and foot schedule
  - Review vacation policy for max and use it or loss it policies
  - Recalculate the estimated taxes and benefits
  - Test of reasonableness of current vs noncurrent portion



## Loans Payable

- List of debt instruments identifying the lender, interest rate, payment, original balance, current balance, current year payments, next year payments and interest expense for current year.
- Supporting amortization schedules for each loan
  - Test the accuracy of debt schedule and compare to prior year noting new additions.
  - Review amortization schedules and compare to the debt schedule
  - Recalculate the five year amortization and the following 5 year increments
  - Test of reasonableness of current vs noncurrent portion





### Tenant Revenue

- Comparative analysis of past 3 years of tenant revenue to current year tenant revenue should be similar
- Compare bad debt to past 3 years and also in relation to the tenant revenue.
  - Document any large variance over 5-10%, and your understanding of why the large change.

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### Grant Revenues

Prepare	Prepare a schedule of ELOCC or EFT from HUD to the revenues
Compare	Compare bad debt to past 3 years and also in relation to the tenant revenue. <ul style="list-style-type: none"> <li>Document any large variance over 5-10%, and your understanding of why the large change.</li> </ul>

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Community Development Corporation


### Management Fees

Prepare	Prepare a schedule of COCC charges to programs showing the program and the rate charged with the unit # charged.
Make	<p>Make sure the revenue agrees to the expense by categories</p> <ul style="list-style-type: none"> <li>• Recalculate fees x unit month by month</li> <li>• Verify fees are in compliance with HUD fee schedule</li> </ul>




### Salary Expenses

Prepare	Prepare a schedule of 941s (tax returns) to the general ledger reconciling the total salaries reported to IRS (941) and FDS lines 911, 941 and others.
Verify	<p>Verify accuracy of schedule</p> <ul style="list-style-type: none"> <li>• Test for timing differences (compensated absences, accrued payroll)</li> <li>• Trace to 941, W-2, and W-3</li> <li>• Compare to budget of FDS lines</li> </ul>




### Housing Assistance Payments

Prepare	Prepare a schedule of monthly HAP disbursements consider reconciliation to VMS reporting.
Verify	<p>Verify accuracy of schedule</p> <ul style="list-style-type: none"> <li>• Test GL payments to VMS payments identify material differences</li> <li>• Compare HAP revenue monthly to expenses monthly</li> <li>• Compare HAP expense to monthly bank EFT or checks</li> <li>• Review HAP register by vendor, by large dollar amounts and search for duplicate amounts</li> </ul>



### Schedule of Expenditures of Federal Awards



### Schedule of Expenditures of Federal Awards(SEFA)


Prepare from lines 70600, 70610, and 70800

Start with PY SEFA and build from there

Don't forget federal loan programs (treated as expenditures each year)

Pass through grants (once federal always federal)

Fund Mapping is critical to good SEFA




### Compliance Audit

The second part of an audit




### Compliance Supplement

- [https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/2017/Compliance\\_Supplement\\_2017.pdf](https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/2017/Compliance_Supplement_2017.pdf)
- <https://www.whitehouse.gov/wp-content/uploads/2018/05/2018-Compliance-Supplement.pdf>
- HCV 14.870
- Public Housing 14.871
- CFP 14.872



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## Audit Types (12 Points of Compliance)

Reporting

Subrecipient  
Monitoring

Special Tests  
and  
Provisions



## Housing Choice Voucher

- Common Findings
  - HQS inspections and follow ups (24 hours vs 30 days)
  - Abatement of landlord payments
  - Rent reasonableness documentation
  - VMS disbursements vs FDS (GL) disbursements (net positions also)
  - Waiting list documentation



## Public Housing

- Common Findings
  - Waiting list (most software don't freeze waiting list)
  - Interfunds
  - Procurement
  - Payroll fund
  - Inspection on move in date



## Capital Fund Program

- Common Findings
  - Section 3 reporting and compliance
  - Unsupported CFP draws
  - Cash Management (3 day rule)
  - Procurement
  - Davis Bacon compliance



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