

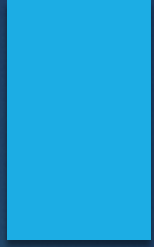


Preparing for an Audit

CAPPA AUDIT TRAINING

DECEMBER 4, 2019

Presented by: Gregory Gebhardt
Chief Operations Officer
Fohrman & Fohrman, Inc.
(949) 313-8560
gregory@fohrman.com



Who needs an audit?

- ▶ CA charitable organizations with annual gross revenue \$2 million or more must have a financial audit
- ▶ Spend \$750,000 or more in federal funds in a single year
- ▶ Other state, local government funders, private foundations, banks, etc.

Learning Objectives

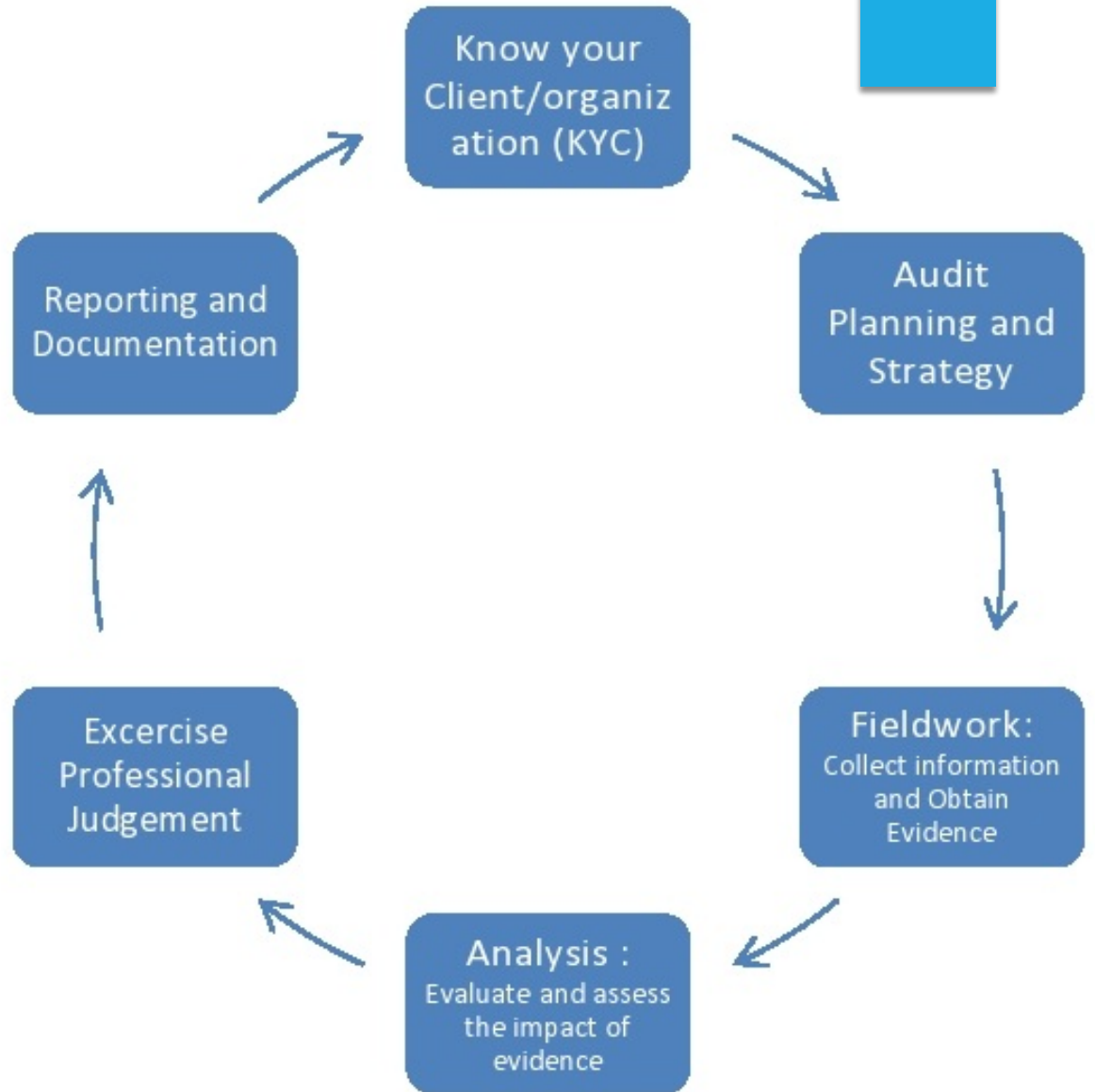
- ▶ Audit perspectives and process
- ▶ How to prepare for an audit
- ▶ Common pitfalls



Audit Perspectives & Process

The Audit Cycle

- Prescribed process
- Not just about \$\$\$ and compliance
- Starts with Understanding

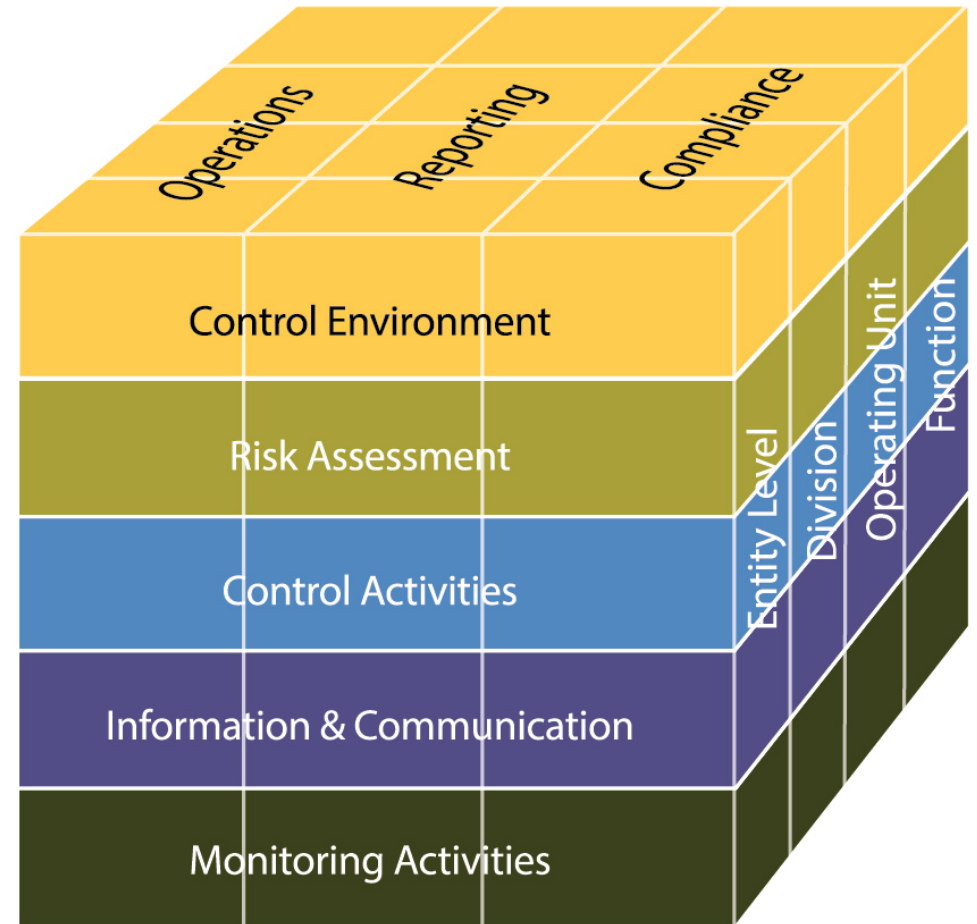


Understanding

- Industry, regulatory
- Your entity
- **Objectives**, strategy
- Financial performance
- Internal Controls to minimize **risk**

Internal Controls Framework

- ▶ Internal control is a **process** to help organization meet its objectives
- ▶ **3 categories**
 - ▶ Effectiveness and efficiency of operations
 - ▶ Reliability of financial reporting
 - ▶ Compliance with applicable laws and regulations
- ▶ **5 control components**



Testing Internal Controls



- ▶ Document understanding
- ▶ Test the design and implementation
- ▶ Test the effectiveness based on sample selection
- ▶ **Ineffective controls = findings, or more testing (\$\$\$)**
- ▶ Compliance testing is similar

Compliance areas

- ▶ Activities
- ▶ Costs
- ▶ Cash management
- ▶ Eligibility
- ▶ Equipment management
- ▶ Matching
- ▶ Performance period
- ▶ Procurement
- ▶ Program revenue
- ▶ Reporting
- ▶ Subrecipients
- ▶ Any add'l areas needing special focus or testing

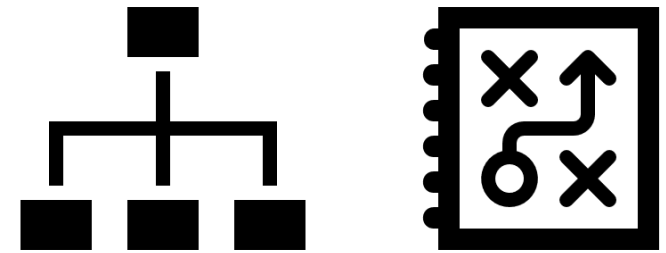


How to prepare

FINDING-FREE IS THE LIFE FOR ME

Before the Audit

- ▶ Review last year's audit
- ▶ Have our risks changed?
- ▶ Review **Policies & Procedures**
- ▶ Reconcile!
- ▶ Schedule a **pre-audit meeting**
- ▶ Do your own testing



Compliance areas

- ▶ Activities
- ▶ Costs
- ▶ Cash management
- ▶ Eligibility
- ▶ Equipment management
- ▶ Matching
- ▶ Performance period
- ▶ Procurement
- ▶ Program revenue
- ▶ Reporting
- ▶ Subrecipients
- ▶ Any add'l areas needing special focus or testing

Pre-audit meeting



Assign audit point of contact



Detail everyone's role during the audit



Review the timeline provided by auditors



Review the audit engagement letter and requested documents for potential issues

Getting Organized

- ▶ Prepare an **audit packet** with all the requested documentation organized and indexed
- ▶ If paperless, remember:
 - File naming conventions
 - Requirements for electronic approvals
 - Process for changes
- ▶ Check in regularly with your team



During the audit

Do

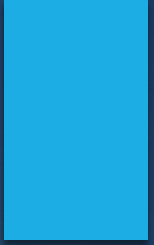
- ▶ Work *with* your auditors
- ▶ Be direct and concise
- ▶ Remember that **how** you say something can be as important as **what** you say
- ▶ Ask for updates and track open items
- ▶ Delay if you are not ready

Don't

- ▶ **Try** to answer a question; **know** the answer or **find** the answer
- ▶ Be afraid to speak up when you know you are right
- ▶ Bring up previous audit issues
- ▶ Lose track of your originals
- ▶ Ask your auditors for the correct way to do something



Common Pitfalls



“
If it isn't written,
it didn't happen.”

- YOUR AUDITOR

Compliance Documentation

- ▶ The 5 W's
- ▶ Genichi Taguchi – follow the gasoline
- ▶ How is monitoring handled?
- ▶ How are periodic internal checks done (and documented)?
- ▶ Mechanisms for collecting data
- ▶ Especially:
 - ▶ ATTENDANCE TESTING
 - ▶ INTAKE
 - ▶ SUBRECIPIENTS
 - ▶ PROCUREMENT
 - ▶ COST ALLOCATION PLAN

Financial Documentation

Reviewed & signed:

- Payroll registers
- Quarterly 941 recons
- Bank, credit card, investment statements
- Balance Sheet recons
- Monthly Financials

Drawdowns

- Timeliness
- Reconciled to awards

Special events

- Tight cash controls
- Summary sheet with # of tickets sold, comped, raffle tix beginning and ending #s, etc.

Other considerations

- ▶ Multi-year, multi-source grants
 - ▶ How to track and report?
 - ▶ Fed funds vs. State funds
- ▶ Indirect cost allocations
- ▶ In-kind
- ▶ Cut-off dates



Activity & Discussion



Preparing for an Audit

CAPPA AUDIT TRAINING

DECEMBER 4, 2019

Presented by: Gregory Gebhardt
Chief Operations Officer
Fohrman & Fohrman, Inc.
(949) 313-8560
gregory@fohrman.com