Preparing for a Financial Audit

May 12, 2026

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This program is made possible under a cooperative agreement with US EPA.

About Us

The **Environmental Finance Center Network (EFCN)** is a university- and non-profit-based organization creating innovative solutions to the difficult how-to-pay issues of environmental protection and water infrastructure.

The EFCN works collectively and as individual centers to address these issues across the entire U.S, including the 5 territories and the Navajo Nation. The EFCN aims to assist public and private sectors through training, direct professional assistance, production of durable resources, and innovative policy ideas.

Financial Audit Basics

What is a Financial Audit?

Is:

- Review of financial controls
- Accuracy Test on Financial Statements
- Compliance Check
- Independent Review

Is Not:

- Fraud Detection
- Punitive

A.K.A - Financial Statements, Annual Comprehensive Financial Report (ACFR)

Why Complete a Financial Audit?

- Because I said so
  - Some programs/states require
- Clean & verified financial info for underwriting

Results of a Financial Audit

- Auditor’s Opinion
  - Unmodified (Clean)
  - Qualified
  - Adverse
  - Disclaimer
- Management Discussion & Analysis (optional)
- Financial Statements
- Notes on Financial Statements
- Required Supplementary Information
- Management letter

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Audit Opinion Example

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wilmington, Vermont, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town of Wilmington, Vermont's basic financial statements as listed in the Table of Contents.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Qualified
Highway Fund	Unmodified
Economic and Community Development Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

Qualified Opinions on Governmental Activities, General Fund and Aggregate Remaining Fund Information

In our opinion, except for the effects of the matters described in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to previously present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the General Fund and the aggregate remaining fund information of the Town of Wilmington, Vermont, as of June 30, 2025, and the changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of

Audit Opinion Example

Unmodified Opinions on Business-type Activities, Highway Fund, Economic and Community Development Fund, Water Fund and Sewer Fund

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities, the Highway Fund, the Economic and Community Development Fund, the Water Fund and the Sewer Fund of the Town of Wilmington, Vermont, as of June 30, 2025, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting, as described in Note I.D.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Wilmington, Vermont 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 qualified and unmodified audit opinions.

Audit Opinion Example

Matters Giving Rise to the Qualified Opinions on Governmental Activities, General Fund and Aggregate Remaining Fund Information

We did not audit the transfer station fees because of inadequacies in the Town's controls over transfer station fees receipts during the year. We were unable to obtain sufficient appropriate audit evidence about the completeness of the transfer station fees in the accompanying Statement of Activities – Modified Cash Basis and Statement of Cash Receipts, Cash Disbursements and Changes in Modified Cash Basis Fund Balances – General Fund (stated at $126,074) by other auditing procedures.

In addition, management has not included the Wilmington Library Fund in the Town of Wilmington, Vermont's financial statements. The modified cash basis of accounting requires the Wilmington Library Fund to be included in the financial statements of the Town as part of the governmental activities and aggregate remaining fund information. The amount by which this departure would affect the assets, liabilities, net position/fund balance, cash receipts, and cash disbursements of the governmental activities and aggregate remaining fund information has not been determined.

Governmental Accounting Basics

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Governmental Accounting - Basics

Governmental accounting is simply the **set of rules and methods** that government-run utilities — like your water or sewer district — use to track money.

Unlike a private business, your utility is accountable not just to owners, but to **taxpayers, ratepayers, and regulators.**

GASB 34 — Basic Financial Statements

The foundational standard. Requires full accrual accounting for enterprise funds and mandates all three core financial statements. Most utilities fall under this.

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Governmental vs Business Accounting

	Government Utility	Private Business
Primary goal	Provide public service	Generate profit
Accounting rules	GASB (Governmental Accounting Standards Board)	FASB (Financial Accounting Standards Board)
Accountability to	Public, ratepayers, state agencies	Shareholders, investors
Budget	Legally required	Internal management tool
Financial reporting	Public record, often state-filed	Private or SEC-regulated

Fund Accounting - Basics

Government utilities often keep different "funds" — think of them as separate bank accounts with their own rules.

General Fund

Day-to-day operations: salaries, utilities, routine supplies. The most common fund for small utilities.

Enterprise Fund

Used when a utility charges fees for services (like water bills). Runs like a business within government.

Capital Projects Fund

Money set aside for big construction or equipment purchases — not routine expenses.

Debt Service Fund

Reserved exclusively for paying back loans and bonds. Must not be commingled with operating funds.

Basics of Accounting – Cash vs Accrual

How you record transactions determines what your financial statements show.

Cash Basis

Record when money changes hands.

- Simpler to maintain
- May miss upcoming bills or receivables
- Can give a misleading picture of financial health
- Less acceptable for audit and state reporting

Accrual Basis ✓ Required

Record when earned or incurred, not when paid.

- Required under GASB for Enterprise Funds
- Matches revenues to the period they relate to
- Includes assets and depreciation
- Captures accounts receivable and payable
- Gives auditors and lenders the full picture

Basics of Accounting- Using Cash Basis

Cash basis or modified cash basis can be used, but will not be GAAP compliant

Disclosure in Audit Opinion
Example:

Emphasis of Matter – Basis of Accounting

We draw attention to Note I.D. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Basics of Accounting- Using Cash Basis

Exhibit E

TOWN OF WILMINGTON, VERMONT
STATEMENT OF FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2025

	Water Fund	Sewer Fund	Total
ASSETS			
Cash	$ 0	$ 86,593	$ 86,593
Due from Other Funds	481,439	397,265	878,704
Total Assets	$ 481,439	$ 483,858	$ 965,297
LIABILITIES AND NET POSITION			
Liabilities:			
Prepaid User Fees	$ 0	$ 641	$ 641
Total Liabilities	0	641	641
Net Position:			
Unrestricted	481,439	483,217	964,656
Total Net Position	481,439	483,217	964,656
Total Liabilities and Net Position	$ 481,439	$ 483,858	$ 965,297

Cash basis or modified cash basis can be used, but will not be GAAP compliant

Basics of Accounting- Using Cash Basis

Exhibit F

TOWN OF WILMINGTON, VERMONT
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN MODIFIED CASH BASIS FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2025

	Water Fund	Sewer Fund	Total
Operating Receipts:			
Charges for Services	$ 316,538	$ 434,247	$ 750,785
Interest and Penalties	2,372	1,761	4,133
Other	692	0	692
Total Operating Receipts	319,602	436,008	755,610
Operating Disbursements:			
Salaries and Benefits	153,635	253,039	406,674
Administrative Fees	5,450	5,450	10,900
Contracted Services	7,077	0	7,077
Utilities	4,834	43,072	47,906
Repairs and Maintenance	2,329	16,189	18,518
Machinery and Equipment	0	4,597	4,597
Chemicals and Supplies	22,794	7,302	30,096
Dues and Fees	208	0	208
Permits and Testing	4,386	4,965	9,351
Insurances	2,799	8,678	11,477
Biosolids Management	0	11,959	11,959
Other	102	0	102
Total Operating Disbursements	203,614	355,251	558,865
Operating Income	115,988	80,757	196,745
Non-Operating Receipts/(Disbursements):			
Investment Income	8,305	3,622	11,927
Allocation Fees	0	33,230	33,230
Connection Permits	0	332	332
Proceeds from Long-term Debt	24,963	0	24,963
Proceeds from Sale of Vehicle	0	13,135	13,135
FEMA Reimbursement	65,611	0	65,611
Principal Payments on Long-term Debt	(67,470)	(45,177)	(112,647)
Interest Expense	(19,536)	(28,317)	(47,853)
FEMA Expenses	(56,158)	0	(56,158)
Asset Management Plan Expenses	(2,210)	0	(2,210)
Capital Outlay	(34,329)	(125,175)	(159,504)
Total Non-Operating Receipts/(Disbursements)	(80,824)	(148,350)	(229,174)
Change in Net Position	35,164	(67,593)	(32,429)
Net Position - July 1, 2024	446,275	550,810	997,085
Net Position - June 30, 2025	$ 481,439	$ 483,217	$ 964,656

Cash basis or modified cash basis can be used, but will not be GAAP compliant

Basics of Accounting – Accrual

Record when earned or incurred, not when paid

Revenues – when earned

- When service is provided <u>*by*</u> you
  - Ex: Utility provides user water for month of May
  - Bill is sent out in June
- May Entry:
  - Debit Accounts Receivable, Credit Revenue
- When Paid:
  - Debit Cash, Credit Accounts Receivable

Expenses – when incurred

- When service is provided <u>*to*</u> you
  - Ex: Water line construction in July
  - Revenue recorded for time of water given (from last bill through end of current billing period)
- July entry:
  - Debit Construction Expense, Credit Accounts Payable
- When Paid:
  - Debit Accounts Payable, Credit Cash

Basics of Accounting – Accrual Assets

Current Assets

Accounts Receivable

- Customer accounts that received service, not yet paid
  - Water Bills

Inventory

- Short term goods you use/consume within a normal operating cycle
  - Chemicals
  - Water Meters

Long Term Assets

Capital Assets

- Long term usage, used in operations to produce income. Not intended for resale
  - Distribution Lines
  - Pump Trucks
- You can set capitalization threshold to record what makes up capital asset vs recording it as an expense

Accumulated Depreciation

- Capital assets lose value over time

Capital Assets and Depreciation

Capital Assets
Long-lived items you own – they last more than one year and cost more than your own capitalization threshold

- Recorded at cost
  - Includes all normal expenditures to bring asset to a location and condition for its intended use
  - Ex: Installation, assembly, freight costs added to purchase price
- Each asset should be identifiable

Required to track these for SRF loans!

Basics of Accounting- Accrual

CITY OF MONTPELIER, VERMONT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2025

	Enterprise Funds				
	Water Fund	Sewer Fund	Parking Fund	District Heat Fund	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 74,352	$ 202,423	$ -	$ -	$ 276,775
Accounts receivable (net of allowance for uncollectibles)	998,285	1,310,432	55,544	93,232	2,457,493
Deposits	-	-	1,600	-	1,600
Inventory	156,901	97,855	-	2,694	257,450
Due from other funds	-	-	132,876	-	132,876
Total current assets	1,229,538	1,610,710	190,020	95,926	3,126,194
Noncurrent assets:					
Construction in progress	165,264	4,469,821	-	-	4,635,085
Land	110,109	-	218,672	-	328,781
Buildings	11,634,438	26,626,441	-	-	38,260,879
Infrastructure	15,406,075	24,582,742	208,946	9,483,311	49,681,074
Equipment and vehicles	1,244,443	1,389,571	35,576	194,734	2,864,324
Total capital assets	28,560,329	57,068,575	463,194	9,678,045	95,770,143
Less: accumulated depreciation	(13,562,080)	(22,650,139)	(200,854)	(3,490,235)	(39,903,308)
Total noncurrent assets	14,998,249	34,418,436	262,340	6,187,810	55,866,835
TOTAL ASSETS	16,227,787	36,029,146	452,360	6,283,736	58,993,029
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	169,192	182,474	48,350	8,614	408,630
TOTAL DEFERRED OUTFLOWS OF RESOURCES	169,192	182,474	48,350	8,614	408,630
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 16,396,979	$ 36,211,620	$ 500,710	$ 6,292,350	$ 59,401,659

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Capital Assets and Depreciation

Depreciation

Wearing out of capital assets over its useful life

- No required method, only that it is "systematic, rational, consistently applied"
- Determine depreciation base as Asset Cost – Salvage Value
- Useful life not rigid but has general industry standards. Management decides useful life

Ways to calculate Depreciation

- Straight Line Method (equal each year)
- Declining Balance (Book value X depreciation rate)
- Double Declining Balance (2 X (1 over Useful Life))
- Units of Production

Link to article: VBB An Appreciation for Depreciation

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Basics of Accounting – Accrual Liabilities

Current Liabilities

Accounts Payable

- Goods or services received, not yet paid
  - New pipe construction, bill from contractor entered into system but not paid

Unearned Revenue

- Money received for not delivering anything – yet
  - Prepaid expenses (rent, leased equipment, insurance coverage)

Current Portion of Long-Term Debt

- Debt to be paid within one year
- Not for Line of Credit

Noncurrent Liabilities

Long Term Debt

- Debt owed less current portion
- Track individually, grouped on financial statements

Leases

- Terms greater than one year

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Basics of Accounting- Accrual

CITY OF MONTPELIER, VERMONT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2025

	Enterprise Funds				
	Water Fund	Sewer Fund	Parking Fund	District Heat Fund	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ 45,681	$ 458,542	$ 6,885	$ (560)	$ 510,548
Accrued payroll and related expenses	48,341	41,374	13,891	1,763	105,369
Due to other funds	294,529	1,710,707	-	265,839	2,271,075
Unearned fees and charges for services	29,172	118,466	-	-	147,638
Accrued interest payable	15,550	64,489	1,744	10,262	92,045
Current portion of long-term debt	217,054	744,085	11,285	117,527	1,089,951
Total current liabilities	650,327	3,137,663	33,805	394,831	4,216,626
Noncurrent liabilities:					
Noncurrent portion of long-term obligations:					
Bonds payable	897,125	11,264,917	140,420	1,346,606	13,649,068
Notes from direct borrowings payable	1,409,109	903,735	-	799,447	3,112,291
Accrued compensated absences	70,997	79,407	14,156	6,199	170,759
Net pension liability	648,207	699,094	185,241	33,001	1,565,543
Total noncurrent liabilities	3,025,438	12,947,153	339,817	2,185,253	18,497,661
TOTAL LIABILITIES	3,675,765	16,084,816	373,622	2,580,084	22,714,287
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	21,746	23,454	6,215	1,107	52,522
TOTAL DEFERRED INFLOWS OF RESOURCES	21,746	23,454	6,215	1,107	52,522
NET POSITION					
Net investment in capital assets	12,474,961	21,505,699	110,635	3,924,230	38,015,525
Unrestricted (deficit)	224,507	(1,402,349)	10,238	(213,071)	(1,380,675)
TOTAL NET POSITION	12,699,468	20,103,350	120,873	3,711,159	36,634,850
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 16,396,979	$ 36,211,620	$ 500,710	$ 6,292,350	$ 59,401,659

Being Audited

Audit Timeline

Planning & Engagement	Fieldwork Preparation	On-Site Fieldwork	Review & Draft Report	Final Report & Follow-Up
1	2	3	4	5
Planning & Engagement	**Fieldwork Preparation**	**On-Site Fieldwork**	**Review & Draft Report**	**Final Report & Follow-Up**
Before fieldwork	*Before fieldwork*	*1–2 weeks on-site*	*Post-fieldwork*	*After draft approved*
Auditor sends engagement letter, prior-year findings reviewed, risk areas identified, PBC list issued.	You gather records, close the books, prepare schedules, and respond to the preliminary document request.	Auditor conducts testing: walkthroughs, vouching, confirmations. Staff answer questions and provide documents.	Auditor compiles findings, drafts the report. You review the draft, respond to findings, and correct errors.	Final report issued. Board reviews. You implement corrective action plans and track resolution of findings.

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Audit Steps – Planning

What Happens in This Phase

1. **Engagement letter issued**
   The auditor formally confirms scope, timeline, fees, and responsibilities
2. **Prior-year review**
   Auditor reviews last year's report, prior findings, and any management letter items to identify recurring risk areas
3. **Risk assessment**
   Auditor identifies which areas of your financials pose the highest risk of material misstatement
4. **PBC list sent to you**
   PBC = "Prepared By Client." This is your document request list — the records the auditor needs before fieldwork begins

What You Should Do Right Now

- Sign and return the engagement letter
- Assign one staff member as the auditor's primary contact
- Review last year's findings — start correcting any that are still open
- When the PBC list arrives, read it carefully and ask questions
- Begin closing the books if your fiscal year has ended
- Alert the auditor early to any known issues, errors, or unusual transaction

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Audit Steps – Fieldwork Prep

PBC = "Prepared By Client" — A list of documents and schedules the auditor needs you to produce before or during fieldwork. Think of it as an assignment sheet. Every item left blank = extra time and questions from your auditor.

- Bank Statements and reconciliations
- Final Trial Balance
- Prior Year Trial Balance for comparison
- All adjusting journal entries
- Capital Asset List
- A/R aging report
- Rate Schedule
- Copies of debt agreements
- Copies of grant agreements
- List of all employees and board members
- Board meeting minutes
- Policies and Procedures handbook

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Audit Steps – Onsite Fieldwork

Day 1

Opening meeting, introductions, auditor sets up workspace, requests any outstanding items

Days 1–2

Walkthroughs of key processes — auditor traces transactions from start to finish, asks staff to explain procedures

Make primary contact available throughout fieldwork, and grant access to other staff as requested. Ensure all staff (even chief operator) are aware the audit is ongoing.

This is where written policies and procedures come in handy. Provided ahead of time, written procedures can reduce onsite burden for staff.

- Walkthroughs go over every process

Audit Steps– Onsite Fieldwork

Days 2–4

Substantive testing — vouching transactions, confirming bank balances, recomputing depreciation, reviewing grants

Auditors will pull a sample set of transactions for the area to be tested, from reports you will provide. They then trace that transaction through your records to confirm what your financial statements say happened.

Example 1: Cash Handling

- Cash reconciliation for every account, checking for timeliness of completion, reviewed and approved by second qualified person, completed timely.
- Trace outstanding checks and deposits to subsequent bank statements to confirm they are real

Example 2: Utility Billing

- Cash reconciliation for every account, checking for timeliness of completion, reviewed and approved by second qualified person, completed timely.
- Trace outstanding checks and deposits to subsequent bank statements to confirm they are real

Audit Assertions

What do Auditors Test?

Audit Assertions – the implicit claims management makes when presenting financial statements

Existence / Occurrence

Assets/liabilities exist; transactions happened

Completeness

All transactions that should be recorded are recorded

Accuracy / Valuation

Amounts are recorded at correct values

Cutoff

Transactions are in the correct reporting period

Classification

Items are recorded in the proper accounts

Rights & Obligations

Entity owns assets and is responsible for liabilities

Audit Assertions in Action

Cash & Bank Reconciliations

Existence

Bank confirmation letters verify the balance exists at year-end.

Completeness

Reconciliation is scanned for old outstanding checks that may be unrecorded liabilities.

Cutoff

Deposits in transit and outstanding checks are traced to confirm they belong in the correct period.

Capital Assets (Pipes, Pumps, Equipment)

Existence

Auditor physically inspects a sample of assets listed on the capital asset schedule.

Valuation

Depreciation calculations are recomputed; useful-life estimates are reviewed.

Completeness

Additions and disposals during the year are traced to supporting invoices or disposal records.

Accounts Payable & Debt

Completeness

Invoices received after year-end are reviewed to find unrecorded payables ("search for unrecorded liabilities").

Valuation

Debt balances are confirmed directly with lenders; accrued interest is recalculated.

Classification

Amounts are checked to ensure current vs. long-term portions of debt are correctly split.

Audit Steps – Review Draft Report

Review & Draft Report

Post-fieldwork

Auditor compiles findings, drafts the report. You review the draft, respond to findings, and correct errors.

Statement of Net Position

(Balance Sheet)

What you OWN vs. what you OWE

Assets − Liabilities = Net Position

Lists infrastructure, equipment, cash, and all debts at a point in time.

Statement of Revenues, Expenses & Changes

(Income Statement)

Money IN vs. money OUT

Shows if you operated at a surplus or deficit over the year. Includes rate revenues, grants, operating costs, and depreciation.

Statement of Cash Flows

(Where did the cash go?)

Actual cash movement

Even a profitable utility can run out of cash. This statement tracks cash from operations, investments, and financing activities.

Will receive draft financial statements that includes audit report, as well as draft letter of findings & recommendations

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Audit Steps– Final Report

Final Report & Follow-Up

After draft approved

Final report issued. Board reviews. You implement corrective action plans and track resolution of findings.
Your response to findings will be included in the final report.

Internal Controls
and
How to Implement Them

Internal Controls

The policies, procedures, and practices that safeguard assets, ensure accurate financial reporting, and promote operational efficiency.

Audits are not designed to catch fraud, but internal controls prevent fraud and can lead to catching fraud.

If it isn't written down, it isn't a control.

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Internal Controls - Framework

COSO Framework

1	**Control Environment**	The tone set by leadership — ethics, integrity, and accountability
2	**Risk Assessment**	Identifying what could go wrong financially or operationally
3	**Control Activities**	Specific procedures: approvals, reconciliations, segregation of duties, safeguards
4	**Information & Communication**	Ensuring the right people receive the right financial information at the right time
5	**Monitoring**	Ongoing review to confirm controls are working and updated as conditions change

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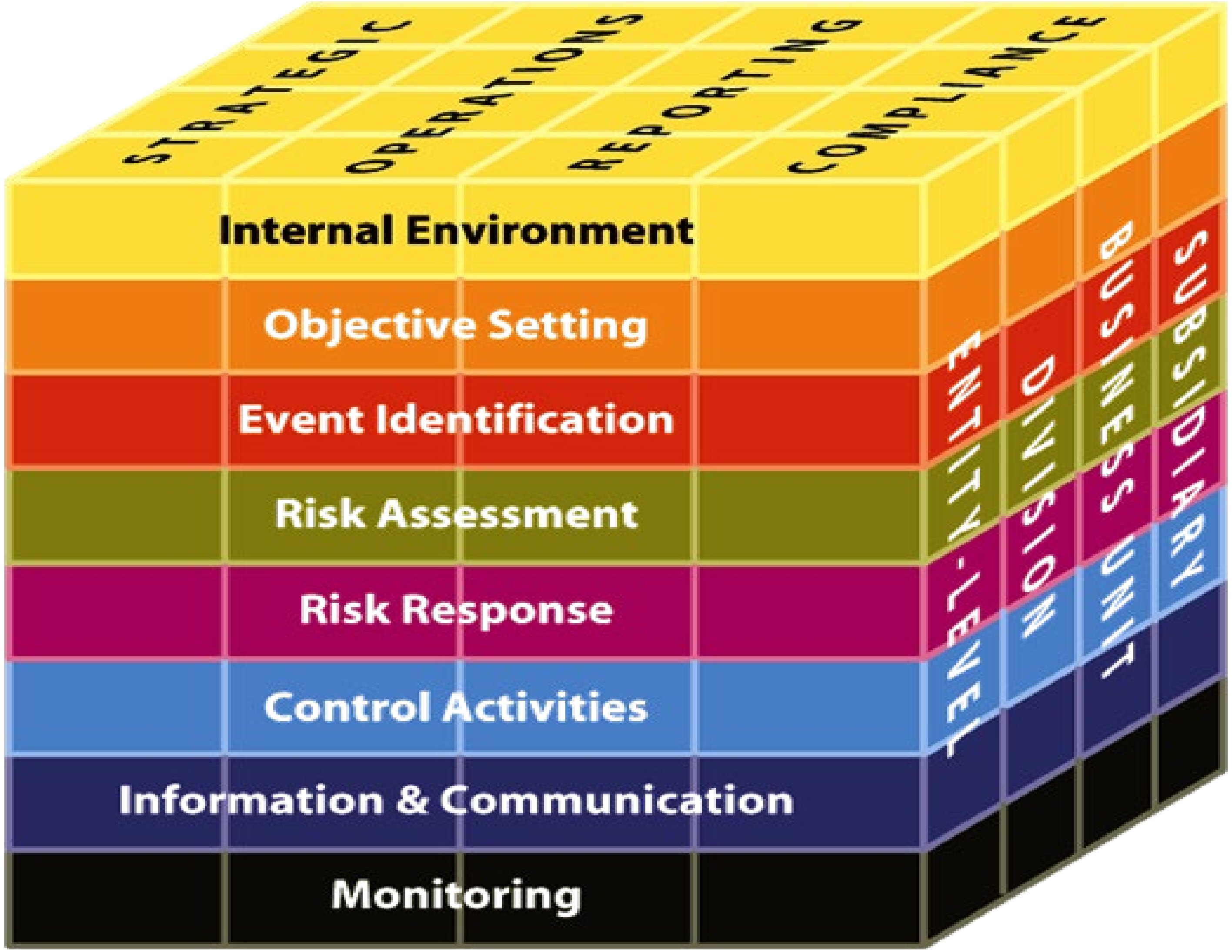
Internal Controls– Framework



Internal Controls – Segregation of Duties

Initiate	Approve	Recording	Reconciliation

Ideal: Four separate functions handled by different people

The Reality for Small Systems

Most small water systems have one or two financial staff making full segregation impossible. This is the #1 internal control weakness found in small utility audits.

The Solution: Compensating Controls

Auditors don't expect perfection but will expect compensating controls. Board and management oversight must actively fill the gap left by limited staffing.

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Internal Controls– Common Weaknesses

Common weaknesses fall under a few general categories, which can be applied to every transaction type.

- One person handles all cash functions — receiving, depositing, recording, and reconciling
- Bank reconciliations not performed timely or reviewed by a second person
- No independent review of payroll before checks or direct deposits are released
- Board members sign blank checks or pre-sign checks for convenience
- No formal, written approval thresholds for purchases or contracts
- Billing adjustments and write-offs lack documentation or supervisor approval
- No capital asset listing — equipment not tracked or inventoried
- No documented financial policies
- Board oversight is passive — financials accepted without substantive review

Internal Controls – How to Implement

Bank reconciliation review

Prepared by one person, independently reviewed by board treasurer or external bookkeeper

Timesheet approval

Supervisor initials and dates timesheets before payroll is processed

Approve all billing adjustments

Every credit, adjustment, or write-off requires supervisor or board approval above a threshold

Approval stamp on every invoice

Initialed and dated by the approver before the check is cut

Notice a pattern?

Internal Controls – Document

Financial Policies & Procedures Manual:	Covers cash handling, purchasing, payroll, billing, and capital assets — board-approved and reviewed annually
Written Approval Thresholds:	Everyone knows exactly what dollar level requires what level of authorization
Job Descriptions with Financial Duties:	Define responsibilities and authority clearly for all staff with financial roles
Forms and Checklists:	Deposit logs, reconciliation sign-off sheets, and approval stamps create the audit trail
Code of Ethics / Conflict of Interest:	Signed annually by board members and key staff — demonstrates tone at the top

Findings & Solutions

Findings of an Audit

- Auditors required to report in the Schedule of Findings and Questioned Costs
- Findings vary in severity, depending on compliance requirement
  - Significant deficiencies
    - Ex: Delayed bank reconciliations – control exists but not timely, errors can go unnoticed temporarily
  - Material Weaknesses
    - Ex: No system to track expenses by grant – can lead to material noncompliance and incorrect reporting on SEFA
- Goal is to identify solutions to problems
- Auditee creates corrective action plan for any findings

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Findings of an Audit

TOWN OF CORINTH, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2024

Deficiencies in Internal Control:

Significant Deficiencies:

2024-001: Prepaid Taxes

- **Finding Type:** Significant deficiency in internal controls over financial reporting.
- **Criteria:** Prepaid taxes should be reconciled at year-end, with supporting schedules prepared to substantiate balances.
- **Condition and Context:** As of June 30, 2024, prepaid property taxes were not reconciled, and no schedule was available to support the reported balance.
- **Cause of Condition:** Lack of reconciliation process and oversight.
- **Effect of Condition:** Risk of misstating prepaid tax liabilities and misrepresentation of related balances.
- **Recommendation:** We recommend implementing a formal reconciliation process for prepaid taxes at year-end, with management review and approval.

Findings of an Audit

TOWN OF CORINTH, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2024

2024-002: Cash Reconciliations

- **Finding Type:** Significant deficiency in internal controls over financial reporting.
- **Criteria:** Cash balances should be reconciled on a monthly basis, with supervisory review to ensure accuracy and timeliness.
- **Condition and Context:** Variances in cash balances were noted during audit procedures. The Town's accountant had not reconciled these balances, and audit adjustments were necessary to correct the accounts.
- **Cause of Condition:** Inadequate reconciliation procedures and insufficient oversight of cash account reconciliations.
- **Effect of Condition:** Increased risk of errors or irregularities in cash balances not being detected or corrected timely.
- **Recommendation:** We recommend that reconciliations of all cash accounts be performed monthly and reviewed by someone independent of the preparer to ensure accuracy.

Audit Findings– Material Weakness

LAKE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2024

OFFICES OF COUNTY MAYOR AND DIRECTOR OF SCHOOLS

FINDING 2024-001

THE GENERAL, GENERAL PURPOSE SCHOOL, SCHOOL FEDERAL PROJECTS, AND CENTRAL CAFETERIA FUNDS REQUIRED MATERIAL AUDIT ADJUSTMENTS FOR PROPER FINANCIAL STATEMENT PRESENTATION
(Internal Control – Material Weakness Under *Government Auditing Standards*)

On June 30, 2024, certain general ledger account balances in the General, General Purpose School, School Federal Projects, and Central Cafeteria funds were not materially correct, and audit adjustments for cash with trustee, accounts receivable, related deferred revenues, and accounts payable totaling $302,805, $1,256,838, $105,552, and $114,598, respectively, were required for the financial statements to be materially correct at year-end. Generally accepted accounting principles require the county and school department to have adequate internal controls over the maintenance of its accounting records. Material audit adjustments were required because the county and the school department's financial reporting systems did not prevent, detect, or correct potential misstatements in the accounting records. It is a strong indicator of a material weakness in internal controls if the county and the school department have ineffective controls over the maintenance of their accounting records, which are used to prepare the financial statements, including the related notes to the financial statements. This deficiency is the result of a lack of management oversight, management's failure to correct the finding noted in the prior year audit report, and management's failure to implement their corrective action plan. We presented audit adjustments to management that they approved and posted to properly present the financial statements in this report.

RECOMMENDATION

Lake County, including the school department, should have appropriate processes in place to ensure its general ledgers are materially correct.

Highlight: Balances were not correct, needed adjusting in a material manner.

"Department's financial reporting systems did not prevent, detect, or correct potential misstatements…a strong indicator of a material weakness in internal controls…"

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Single Audit Components

What is a Single Audit?

Legal Basis: The Single Audit Act (1984, amended 1996) and OMB **Uniform Guidance (2 CFR Part 200)** require any entity that spends $1,000,000+ in federal awards in a year to undergo a combined audit of both their financial statements AND their federal program compliance.

- Focus is compliance
- Trigger - $1,000,000 of federally-reimbursable expenses incurred in the borrower's fiscal year
  - Accrual basis accounting, expensed = incurred
- Incorporates “Entire Operations of Auditee”
- Preparation is like Financial Audit

A Single Audit is not just a bigger financial audit — it has a distinct legal basis, scope, and set of deliverables.

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Single Audit - Scope & Standards

General info:

- Frequency
- Auditee (you) responsibilities
- Auditor selection
- Financial Statements/SEFA
- Findings
- Report submission

Audit Specific:

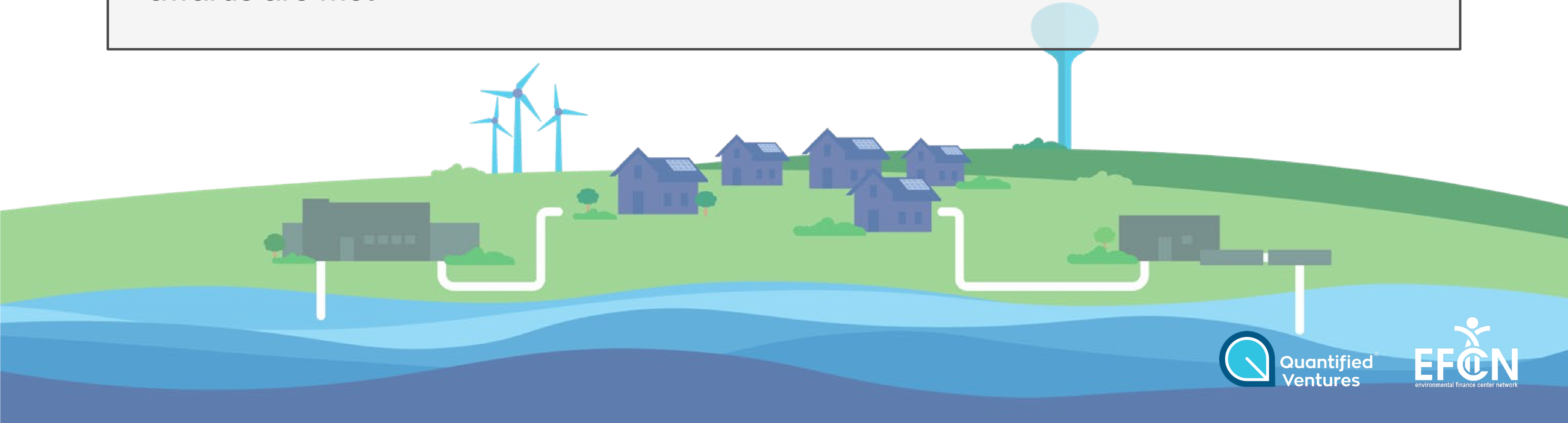
- Financial Statements/SEFA
- Internal Control
  - Compliance supplement guides auditors
  - Major Program can affect this
- Compliance
- Follow-up of prior audit findings

Federal Regulation: 2 CFR Part 200 Subpart F

Single Audit- Compliance Statement

Compliance Supplement guides auditors

- https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-F
- https://www.fac.gov/assets/compliance/2025-Compliance-Supplement.pdf
- Compliance means federal statutes, regulations, and terms and conditions of federal awards are met



Compliance Testing & Internal Controls

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Single Audit- Compliance

- Compliance Supplement tells auditors what to test for
- A big checklist for auditors
- Not everything checked
  - Auditors plan testing to “support a low level of control risk”
- Testing of internal controls over this compliance as well as transaction testing

PART 3 – COMPLIANCE REQUIREMENTS	
Introduction	
Part 3.1 – Compliance Requirements – Under 2 CFR 200 before October 1, 2024	
A. Activities Allowed or Unallowed	3.1-A-1
B. Allowable Costs/Cost Principles	3.1-B-1
2 CFR Part 225/OMB Circular A-87	3.1-B-10
2 CFR Part 220/OMB Circular A-21	3.1-B-27
2 CFR Part 230/OMB Circular A-122	3.1-B-40
C. Cash Management	3.1-C-1
D. [Reserved]	3.1-D-1
E. Eligibility	3.1-E-1
F. Equipment and Real Property Management	3.1-F-1
G. Matching, Level of Effort, Earmarking	3.1-G-1
H. Period of Performance	3.1-H-1
I. Procurement and Suspension and Debarment	3.1-I-1
J. Program Income	3.1-J-1
K. [Reserved]	3.1-K-1
L. Reporting	3.1-L-1
M. Subrecipient Monitoring	3.1-M-1
N. Special Tests and Provisions	3.1-N-1
Part 3.2 – Compliance Requirements – Under 2 CFR 200 on/after October 1, 2024	3.2-A-1
A. Activities Allowed or Unallowed	3.2-A-1
B. Allowable Costs/Cost Principles	3.2-B-1
2 CFR Part 225/OMB Circular A-87	3.2-B-14
2 CFR Part 220/OMB Circular A-21	3.2-B-31
2 CFR Part 230/OMB Circular A-122	3.2-B-43
C. Cash Management	3.2-C-1
D. [Reserved]	3.2-D-1
E. Eligibility	3.2-E-1
F. Equipment and Real Property Management	3.2-F-1
G. Matching, Level of Effort, Earmarking	3.2-G-1
H. Period of Performance	3.2-H-1
I. Procurement and Suspension and Debarment	3.2-I-1
J. Program Income	3.2-J-1
K. [Reserved]	3.2-K-1
L. Reporting	3.2-L-1
M. Subrecipient Monitoring	3.2-M-1
N. Special Tests and Provisions	3.2-N-1

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Single Audit - Compliance

- Federal awards have rules to follow specific to that award
  - Federal Statutes
  - Federal Regulations
  - Terms & Conditions of Federal awards
- Compliance seen as met/not met

Single Audit - Internal Control

PART 6 – INTERNAL CONTROL	6-1

What Auditors Test for Each Major Program

Allowable costs	Procurement	Reporting	Cash management	Matching requirements
Are expenditures charged to the grant permitted under the award agreement and 2 CFR 200?	Were competitive bids obtained? Were debarred vendors excluded? Were purchases within the grant scope?	Were financial and performance reports submitted on time and accurately to the federal agency?	Were federal draws timed to actual need — not drawn in advance and sitting idle?	If a match was required, was the non-federal share properly documented and actually expended?

Ties to compliance:

- Controls tested in each compliance area

SEFA not CIFA

Single Audit- SEFA

- Prepared by auditee
  - Auditors can assist/prepare on your behalf if both parties agree
- Separate from standard Financial Statements
- List by Assistance Listing Numbers/CFDA (old term)
- Based on <u>expenditures</u>

City of Sample
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 20YY

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
CDBG - Entitlement Grants Cluster								
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218		-	23,577	23,577	-	1
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218		-	325,376	325,376	-	1
	Total CDBG - Entitlement Grants Cluster:			**-**	**348,953**	**348,953**		
U.S. Bureau of Justice Assistance (via City of Sample Drug Enforcement Administration)	N/A -Cooperative Agreement with Drug Enforcement Administration	16.U01	n/a	17,315	-	17,315	-	1,2
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027		-	6,002,286	6,002,286	-	1,2
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA State Military Department)	Hazard Mitigation Grant	97.039	D23-006	185,150	-	185,150	-	1,2
	Total Federal Awards Expended:			**202,465**				

Single Audit- SEFA

⚠ Common SEFA Errors

- Missing a federal award entirely — especially newer or smaller grants
- Wrong CFDA number — causes misidentification of the program
- Expenditures don't agree to the general ledger
- Omitting the outstanding loan balance

City of Sample
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 20YY

		ALN Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218		-	23,577	23,577	-	1
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218		-	325,376	325,376	-	1
			Total CDBG - Entitlement Grants Cluster:	-	348,953	348,953		
U.S. Bureau of Justice Assistance (via City of Sample Drug Enforcement Administration)	N/A -Cooperative Agreement with Drug Enforcement Administration	16.U01	n/a	17,315	-	17,315	-	1,2
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027		-	6,002,286	6,002,286	-	1,2
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA State Military Department)	Hazard Mitigation Grant	97.039	D23-006	185,150	-	185,150	-	1,2
			Total Federal Awards Expended:	202,465	6,351,239	6,553,704		

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What is the correct answer to any SRF question?

Every state is different.
It depends.

In-Person Training

Looking for in-depth Financial Management training?
Located in New England?

- May 28-29, 2026, at University of Southern Maine, Portland Maine
- Free to attend. You pay for travel, meals, and lodging
- 1.5-day training; 10.75 WW TCHs in ME
- Registration link: https://efcnetwork.org/event/me-training-financial-management-for-water-and-wastewater-utilities/

Located in the Mountain West?

- June 24-25, 2026, at Laramie County Community College, Cheyenne, WY
- Free to attend. You pay for travel, meals, and lodging
- 2 full day training; 13 TCHs in WY
- Registration Link: https://efcnetwork.org/event/wy-in-person-training-financial-management-for-water-and-wastewater-utilities/

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