

September 2016

Audit awareness: Preparing for one-off supplemental audits

An article by Sean Carney, Matthew Geerdes, CPA,
and Christine Torres, CPA

If they haven't already, Illinois school district officials could soon find themselves subject to several types of supplemental audits in addition to their annual financial statement audits. Proper planning and preparation can facilitate a smooth process that satisfies auditors and wraps up on a timely basis, with minimal disruption.

School district officials in the State of Illinois are familiar with the headaches and hassles involved in undergoing annual audits, but they can't afford to let their guards down when it comes to the supplemental audits that are increasingly coming between yearly examinations. With the recent implementation of the Uniform Grant Guidance, as well as additional regulatory reviews from agencies such as the Illinois State Board of Education (ISBE), Teachers' Retirement System of the State of Illinois (TRS), and Illinois Municipal Retirement Fund (IMRF), school districts have been subject to greater numbers of these supplemental audits and the potentially costly funding recaptures that can result when significant noncompliance is detected.

It's critical, therefore, that officials understand why these audits are occurring, how to prepare for them, and how to respond to the results. Audit apprehension is understandable, but, with careful preparation, officials can make it more likely that supplemental audits proceed in an expedited, organized manner.

Supplemental audits in Illinois

In contrast to annual financial statement audits, supplemental audits consider specific pieces of a school district's operations. Those pieces could affect financial statements, but supplemental audits dig into them in much more depth than is typical for the annual audit.

In Illinois, typically school districts are subject to supplemental audits conducted by three regulatory agencies:

1. **Illinois State Board of Education** – As the oversight agency for all school districts in the state, ISBE has the discretion to look at whatever it chooses. In recent years, it has primarily scrutinized four main areas: general state aid (specifically, the factors that go into the calculation of aid, including average daily attendance), transportation, child nutrition, and special education.

2. Teachers' Retirement System – TRS can review a district's payroll records to check that they correspond with the amounts the district withholds from paychecks and submits to the system. It also determines whether the district funded the plan with employer and employee contributions in accordance with applicable statutory rates. In addition, TRS reviews the participant census to confirm that the district is providing accurate census data. Notably, in the wake of the recent implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions," which requires sampling of participant data, including data from the annual census, the TRS has added more spot checks to its routine site visits performed annually on a sample basis.

3. Illinois Municipal Retirement Fund – The IMRF conducts spot checks of participant census data, too. In addition, it selects certain districts for review in the same manner TRS does. Large districts that are responsible for providing a larger proportion of the plan's net position can expect IMRF visits, but the fund also randomly selects some smaller districts for visits. In general, due to the new pension accounting requirements, districts will see more of both the IMRF and the TRS in the future.

Planning for a supplemental audit

Like any annual financial audit, a successful supplemental audit experience requires appropriate preparation. First and foremost, officials should respond promptly when they receive an audit notice from a regulator. A surprising number of districts fail to respond in a timely manner, and suffer unnecessary negative experiences as a result.

Upon receiving a notice, an official should reach out to the regulatory agency to determine the scope of the audit to come. For example, is the agency interested in participant-related issues for pension accounting or other areas of concern?

It's also wise to consider the objective of the supplemental audit. For an ISBE general state aid audit, for example, usually the objective is to verify that the data reported to calculate general state aid is accurate. IMRF and TRS, on the other hand, want to know if all of the employees categorized as "active" for pension reporting purposes are actually active and whether the withholding has been calculated correctly. Officials must understand the auditors, objective, and scope to best prepare for their requests for materials.

If possible, officials also should learn which type of agency personnel will be dispatched to the district offices. A field representative will be well versed and probably seek more detailed material, for example, while a senior administrator from the agency might be more interested in high-level discussion about the district's general overall operations. Knowing the audience can help to guide a district's audit preparation.

Preparing the materials for a supplemental audit

School officials can expedite the supplemental audit process for all involved by preparing materials for the auditors in advance. Most agencies provide a specific list of requested materials; other times, the audit objectives might provide a road map. If the objective is to check the general state aid calculation, for instance, the district needs to provide attendance data for the year in question, the relevant attendance policies, the amount of other grant revenues received that year, and the amount of property taxes received that year.

One common approach is to provide the auditors with information on the population of data that is available a week or so before the site visit. The auditors can then select samples of detailed records from that data population to examine on-site. The samples could be large or small. Some auditors have discretion in this area, but others must act according to guidance from their agency.

Officials should take the time to discuss the request for materials with the appropriate district personnel. The chief school business official should have access to the necessary information, but he or she should alert the superintendent, the transportation coordinator, principals, attendance clerks, human resources, and payroll that an audit

is coming, so that additional information requests don't catch those functions unprepared. Follow-up questions and material requests are bound to happen. If personnel don't respond promptly, the process can come to a halt.

Officials also can avert delays by preparing all requested materials in the format specified by the agency. When districts fail to provide data in the correct format, it can slow the audit process and create problems with calculations. Following the formatting instructions will enable auditors to complete their work sooner.

It's advisable, as well, to review the assembled information before transmitting it, to confirm that it satisfies the requested specifications and can be followed easily, meaning that the relevant backup detail is provided near the corresponding summary information. Again, it's all about making the process quicker and easier for the auditor.

Handling the final report

Many districts consider it worthwhile to conduct a closing meeting with the auditor to review the draft findings (although many auditors consider this meeting part of standard procedures). Even in the absence of a formal meeting, however, district officials should carefully review the draft findings, including the calculations and the potential impact of the findings. Officials need to understand the reasoning behind auditors' conclusions, particularly any exceptions or adverse findings, and verify that the auditors are acting on valid evidence. If officials disagree with findings, they can pursue additional follow-up with a higher-level authority in the agency. It's best to resolve such issues before the final report is issued.

After the auditors' report has been finalized, officials must present the findings to the district board of education as part of their responsibility as "those charged with governance." In some circumstances, officials receive and agree to a draft report, and then the board looks at the draft and approves the language before the auditors submit it as the final report.

District officials should bear in mind that, with today's greater emphasis on transparency, audit reports might well be released to the public. Adverse findings, therefore, could cause fallout for both officials and elected board members.

Acting promptly and appropriately

When an audit notice arrives, school districts must take the necessary steps to understand the purpose of the audit and prepare accordingly. Proper planning can go a long way toward the conclusion of supplemental audits in a timely manner and with as few as possible disruptions to operations. And, a careful review of the final audit report can provide valuable guidance on improving operations, which would help minimize audit pain in the future.



Learn more

Sean Carney is the assistant superintendent of finance for Stevenson High School District 125, Lincolnshire, Ill. He can be reached at + 1 847 415 4117 or scarney@d125.org.

Matt Geerdes is with Crowe and can be reached at +1 630 706 2061 or matt.geerdes@crowe.com.

Christine Torres is a partner with Crowe and can be reached at +1 630 706 2074 or christine.torres@crowe.com.

crowe.com

Text created in and current as of September 2016; Cover and artwork updated in May 2018.

The information in this document is not – and is not intended to be – audit, tax, accounting, advisory, risk, performance, consulting, business, financial, investment, legal, or other professional advice. Some firm services may not be available to attest clients. The information is general in nature, based on existing authorities, and is subject to change. The information is not a substitute for professional advice or services, and you should consult a qualified professional adviser before taking any action based on the information. Crowe is not responsible for any loss incurred by any person who relies on the information discussed in this document. Visit www.crowe.com/disclosure for more information about Crowe LLP, its subsidiaries, and Crowe Global. © 2018 Crowe LLP.

PSS-17001-037A