

## City of Clarkston

### ***General***

***Code:*** 07Clarkston-AC20-SA20  
***Name:*** City of Clarkston  
***Group:*** Pullman  
***Type:*** 07-City/Town  
***Location:*** Asotin  
***Scope:*** Not Applicable

### ***Team***

***Lead:*** Travis Jones  
***Manager:*** Heide Brillantes

## Procedures

### **A.1.PRG - TeamMate Administration**

***Procedure Step:*** Audit Setup  
***Prepared By:*** TLJ, 9/3/2021  
***Reviewed By:*** AMS, 3/18/2022

Purpose/Conclusion.
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## **Purpose / Conclusion:**

Set up TeamMate audit file in accordance with TeamMate Protocol.

## **Testing Strategy:**

All of the following steps are required in order to properly set up the TM file except for the optional step to set up global tickmarks. If the budget is less than 100 hours, auditors may skip steps 4-6 (filling out the profile and sending to TC) until the end of the audit.

1. **Add the audit team to the project** - To do this, go to the Planning tab and select Team. Then select the team from the TeamStore by clicking the "get" button. **For confidential audits, disable the "guest auditor" user.**
2. **Set Project Manager and Lead** - Select the Lead and Manager from the drop down menus in the Team Tab of the Profile. The "Lead" should be the Auditor-In-Charge of the audit, and the "Manager" should be the Assistant Audit Manager supervising the audit.
3. **Fill out initial information in the Profile** - The Project Profile captures general information about the audit for the TeamCentral database. Access the Profile from the Planning tab and populate as many of the required fields in the Profile as possible at this stage of the audit. A description for each required field can be found in the TeamMate Protocol document.
4. Go to <http://saoapp/TMDV/ViewProjectErrors.aspx> and enter the project code then "Validate" to check your project for errors.
5. **Resolve any TMDV errors** - The TeamMate Data Validation (TMDV) application performs a series of edit checks on data in your project to ensure accuracy and conformity to protocol. If TMDV identifies errors for your project, resolve the errors and send to central again (if distributed) until TMDV displays that there are no records to display.  
  
Exceptions could indicate either errors in the TeamMate profile or issue data or errors in other SAO databases. If you have confirmed that information in TeamMate is correct, contact the TeamMate Administrative Group to initiate corrections to our other databases.
6. **Set up your favorite global tickmarks (optional)** - Global tickmarks are available throughout the audit file and do not change from workpaper to workpaper. You can access the global tickmarks screen from the Planning tab.
7. **Initialize Audit** – Attempt to sign off on this step, which will trigger a dialog box asking if you would like to initialize the audit. After initialization of the audit, you may continue to add users or global tickmarks, but cannot delete any.

## **Guidance/Criteria:**

See [TeamMate Protocol Document](#)

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### Record of Work Done.\*

1. Added the audit team to the project
2. Set the Project Manager and Lead
3. Filled out the audit profile
4. All projects - Checked Data Validation System for errors
5. Resolved all TMDV Errors
6. Set up my favorite global tickmarks, if needed
7. Initialized the audit file

### A.1.PRG - TeamMate Administration

***Procedure Step:*** Project Review & Finalize

***Prepared By:*** TLJ, 3/22/2022

***Reviewed By:*** WFR, 3/28/2022

### Purpose/Conclusion.\*

#### **Purpose/Conclusion:**

To ensure that audit documentation complies with TeamMate Protocol, the audit file is ready for finalization and archiving, and that any files outside of TeamMate are completed and reviewed.

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## Testing Strategy:

### Replicas

Ensure that all replicas are merged into the master file and discard any replicas that will never be merged.

### Review of workpapers

Review workpapers to ensure they are completed and properly signed off. You can use the Procedure Status Viewer (for all procedure steps) or the Schedule Status Viewer (for procedure summaries and attachments) to see the status of steps and attachments in the audit file. *The Viewers can be accessed from the buttons on the Navigation Bar at the bottom of the screen.*

### Coaching Notes

Verify that all coaching notes have been addressed and cleared. You can use the Coaching Notes Viewer to see the status of all Coaching Notes in the audit file. *The Coaching Note Viewer can be accessed by using the button on the Navigation Bar at the bottom of the screen.*

During the finalization process, coaching notes will be deleted. If you want to keep these notes you will need to create a report using the Reports wizard and save it outside of the TeamMate file.

### Hardcopy Files and External Data

Ensure that hardcopy files referenced by the audit are completed and reviewed. Also ensure that any unnecessary documentation or files, including databases with any confidential or sensitive information, are appropriately disposed. If files or databases are needed for future periods, ensure these are appropriately secured. *See the SAO Administrative Policy on Data Security and Access.*

### Project Profile

Review and update the Profile information. See the TeamMate Protocol document for definitions and instructions for each required field. *The Protocol document can be accessed from your Start Menu / All Programs / State Auditor's Office or on the Intranet on the TeamMate page.*

### Confidential Audits Only

Disable guest user and any other users granted temporary file access.

### Issue Review

Ensure issue content is exactly what was presented to the client per the Exit Document, Management Letter, or Finding. There should only be one issue for each finding, management letter item and exit comment. Additional information or notes about the issue can be documented in the "notes" tab. Any other documented issues (that were communicated verbally, at pre-exits or were later combined or dropped) should be either deleted or marked as "verbal recommendations."

Check that all required issue fields are completed and correct. See the TeamMate Protocol document for definitions and instructions for each

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required field. *The Protocol document can be accessed under Audit / TeamMate on the Intranet.*

### Issue Sign-Off

All issues must be reviewed and signed off by a Supervisor and/or Audit Manager, per Protocol. The finalization process will require all issues to have a state of "reviewed."

### Audit Status in Tracker

Update the Audit Status of prior audit management letters and findings in Tracker. See the [Tracker Quick Reference Guide](#) for details.

Resolve any TMDV errors - The TeamMate Data Validation (TMDV) application performs a series of edit checks on data in your project to ensure accuracy and conformity to protocol.

- Go to the Status and Milestones tab in the profile and change project status to "Post Fieldwork"
- Go to <http://saoapp/TMDV/ViewProjectErrors.aspx> and enter the project code then "Validate" to check your project for errors.
- If TMDV identifies errors for your project, resolve the errors and check web site until TMDV displays that there are no records to display.

Exceptions could indicate either errors in the TeamMate profile or issue data or errors in other SAO databases. If you have confirmed that information in TeamMate is correct, contact the **TeamMate Administrative Group** to initiate corrections to our other databases

### Change Project Status

Go to the Status and Milestones tab in the profile and change project status to "Post Fieldwork"

Enter the report issuance date in the "Issued (Final Report)" field. **REMINDER: DO \*NOT\* CHANGE THE STATUS OF THE PROJECT TO ISSUED.**

### Complete/Finalize Project

After the audit report has been sent to OS the audit should be finalized by the Audit Manager. To do this, go to Review | Finalize. The finalization process will:

- Halt the process if any issues have not been reviewed;
- Warn the Audit Manager of unreviewed workpapers and/or steps;
- Check for uncleared coaching notes;
- Finalize the project, which prevents any further changes from being made to the file.

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*Note: if the project is finalized and the team subsequently needs to add or modify the documentation, contact the TeamMate Administrator for assistance.*

Guidance/Criteria:

## **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

## **TeamMate Protocol Document**

Record of Work Done:

All of the following steps have been completed for this audit file:

- All outstanding replicas are merged.
- All workpapers have been reviewed.
- Coaching notes have been addressed and cleared.
- Hardcopy files have been completed and reviewed.
- Unnecessary files and databases have been appropriately disposed of, and any files or databases needed for future periods have been appropriately secured in accordance with SAO's administrative policy on Data Security and Access.
- The audit profile has been completed.
- As applicable, any guest/temporary user access has been disabled (confidential audits only).
- Issue content has been reviewed and required fields completed.
- All issues have been signed off as reviewed.
- The Audit Status of prior audit management letters and findings has been updated in Tracker.
- All TeamMate Data Validation errors are resolved.

The audit will now be finalized and be marked for archival.

## **B.2.PR.G - Accountability Planning - Local Govt**

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**Procedure Step:** Engagement Letter

**Prepared By:** TLJ, 9/7/2021

**Reviewed By:** HVB, 10/13/2021

Purpose/Conclusion:

**Purpose / Conclusion:**

To confirm that a common understanding of the terms of the audit engagement exist with the government.

Testing Strategy:

To confirm our understanding with the government, auditors are **required** to perform the following procedures:

- Choose the appropriate engagement letter template from TeamMate and modify it for the scope of the audit and any special needs.

*Auditors should consider the need to confirm any critical scheduling or deadline issues, access to information at key service providers or component units or other matters that may be necessary to avoid or address prior audit difficulties.*

- Have the engagement letter signed by at least the audit contact and a key oversight official (e.g. the chief executive or a member of the governing body or its audit committee). Auditors should consider whether others within the entity should also sign the engagement letter.

*The team should consider whether signatures by a representative of the governing body, the chief executive and/or a member of the audit committee would be most appropriate for the circumstances and whether others in the organization should also sign. In making this judgment, auditors should consider the risk of miscommunication or lack of communication about the audit within the government, whether deadlines may not be met, and the likelihood and nature of any audit difficulties.*

- Determine most appropriate time to obtain a signed engagement letter, but not later than the entrance conference date. Auditors should print the engagement letter for signature to ensure it is not modified.

*Normally the engagement letter would be signed on the first day of fieldwork. However, it may be more appropriate to sign later after preliminary meetings about scheduling or at the entrance conference to facilitate signing by the governing body.*

*Note that delay or refusal to sign the engagement letter would **not** preclude us from continuing with the audit, since our audit authority is*

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*based on statute and our own policy. However, in such circumstances, auditors should proceed with caution and consult with their manager and assistant director to determine the effect on the audit and the most appropriate response.*

Contact TAS with questions or for assistance with modifications to the engagement letter.

### Changes to the Engagement Letter:

Auditors should carefully review management requests for major changes to engagement terms. To consider and respond to any requested changes, auditors are required to perform the following additional procedures:

- Understand management's reasoning and objective for the change.
- Discuss the requested change with their manager and, as appropriate, their assistant director and Team Audit Support.
- Auditors should not agree to changes that are not reasonably justified, including a request **during an audit** for a change in engagement type to one with a lower level of assurance.
- Changes to engagement terms **during an audit** should be documented in a new engagement letter or addendum (the addendum template is available in the Store) in accordance with Policy 2140 and 1220. Include the new engagement letter or addendum in the audit documentation and an explanation in the Record of Work Done.
- Update audit plan and related steps to reflect the changes as appropriate.

Auditors should also complete a BUCO for changes to the audit period, scope or budget to update Audit Number information.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**Policy [2140](#) - Engagement Letters**  
**[Accountability Audits](#) Planning Guide**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

### **AU-C [210](#) – Terms of Engagement**

Record of Work Done:

See FS Engagement Letter step at [[Engagement Letter](#)].



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## B.2.PR.G - Accountability Planning - Local Govt

*Procedure Step:* Review Annual Report

*Prepared By:* TLJ, 9/7/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion:

**This step is not applicable at this time for Schools and ESDs.**

**Purpose:**

To determine compliance with annual report filing requirements and identify items to consider in assessing audit risks.

**Conclusion:**

We determined that filing requirements were met.

Based on our review of the annual report, we noted **the following** potential accountability risks:

- **Self-Insurance Programs (Unemployment Compensation):** The City self-insures for unemployment compensation benefits. Self insurance programs are required to be audited every two years. There is risk the County does not have adequate internal controls to ensure compliance with individual self insurance program requirements, including solvency requirements. We will bring this risk forward to brainstorm at [Brainstorm Conference + Audit Plan].

Testing Strategy:

To review the annual report, auditors are **required** to perform the following procedures:

- Check the Data tab of EIS to determine whether the annual report was filed by the statutory deadline.

*Contact Stacie Tellers with questions on reporting levels for annual report filing issues. When governments fail to file their annual report or are so late that it is not available at the beginning of the audit, this may also require an increase in audit budget and represent a difficulty that should be discussed at the exit conference.*

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- If the government has not yet filed, request they do so to meet requirements of RCW 43.09.230 and in order to ensure the most efficient, effective audit process.
- If the government has filed, auditors should review the following reports:
  - Attached schedules | Schedule 15 – State Grant Expenditures
  - Attached schedules | Schedule 17 – Public Works and Day Labor (cities and counties)
  - Attached schedules | Schedule 21 – Risk Management

*Self-Insurance programs are required to be audited every two years (or every audit for those on a three-year cycle). The purpose of Schedule 21 is to identify and gain an understanding of these programs, and to assist us in planning our accountability audit to meet the requirement. Consider using the [optional Self-Insurance Assessment work paper](#) during planning to gain an understanding of potential self-insurance programs not reported on Schedule 21, available in the TeamStore in the [Accountability Planning Workpapers folder](#).*

- Attached schedules | Schedule 22 – Annual Audit Assessment (if applicable)
- If the government reports on a cash basis, auditors should also review the Yellow Flag report to determine if reported financial information is reliable enough to use for analytical procedures.

*If the cash basis government is only receiving an accountability audit, teams should consider following up on significant yellow flags or performing other procedures to verify data accuracy, such as tracing reported figures to the GL or County Treasurer reports. If significant misstatements are identified, teams should ask the government to review and resubmit corrected figures.*

If governments have any questions or difficulty with online filing or updating their online filing, direct them to contact Team LGS for assistance (such as Kayley Pagio).

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **[Accountability Audits](#) Planning Guide**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**BARS [4.8.1](#) SAO Annual Report Schedules - Revenues/Expenditures/Expenses (Schedule 01) - 4.8.1.20** requires updates to annual

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reports for any subsequent adjustments up to the time of audit completion, after issuance of the audit report, if any errors are identified they should be recorded in the next period as a prior period adjustment

**RCW 43.09.230 Local Government Accounting-Annual Reports-Comparative Statistics** - requires annual reports to be submitted to SAO within 150 days after the close of each fiscal year

### Other Entity-Specific Reporting Requirements

- **Hospital Districts** - On December 6, 2005, our office issued a letter to all public hospital districts informing them that we would not consider hospitals reporting one month late (by June 30) to be a significant issue and, accordingly, would not report such late submissions as management letter or finding. This practice is due to our recognition of deadlines that Hospitals must meet to submit Medicare cost reports.
- **Housing Authorities (RCW 35.82.230)** – Authorities must file a report of its activities for the preceding year with the creating City or County.
- **Risk Pools (RCW 48.62.091(4))** – Annual report with certain information to State Risk Manager and State Auditor
- **Transportation Benefit Districts (RCW 36.73.160(2))** – Districts must issue an annual report to the public indicating the status of transportation improvement costs, transportation improvement expenditures, revenues, and construction schedules.

Record of Work Done:

To review the annual report, auditors are **required** to perform the following procedures:

- Check the Data tab of EIS to determine whether the annual report was filed by the statutory deadline.

We checked the Data tab of EIS and determined the 2019 and 2020 annual reports were filed before the statutory deadline, as seen in the table below:

Annual Report Filing			
Year	Statuary Deadline	File Date by City	Was the Statuary Deadline Met?
2019	7/1/2020	6/17/20	Yes
2020	5/30/2021	5/28/21	Yes

- If the government has not yet filed, request they do so to meet requirements of RCW 43.09.230 and in order to ensure the most efficient, effective audit process.
- Not applicable. The City filed the annual reports before the statutory deadline.

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- If the government has filed, auditors should review the following reports:
  - Attached schedules | Schedule 15 – State Grant Expenditures

We reviewed the FY19 and FY20 Schedule 15 and determined total expenditures received directly or indirectly from state agencies tie to the Schedule 1, as seen in the table below. No risks noted.

Schedule 15 – State Grant Expenditures		
Year	Amount	Auditor Notes
2019	\$11,616	Ties to Schedule 1. No issues noted.
2020	\$1,260	Ties to Schedule 1. No issues noted.

- Attached schedules | Schedule 17 – Public Works and Day Labor (cities and counties)

The City did not report a Schedule 17 for FY19 and FY20 as there were no public works projects performed by City staff during the period.

Schedule 17 – Public Works and Day Labor (cities and counties)		
Year	Amount	Auditor Notes
2019	N/A	No Schedule 17 submitted as there were no public works projects performed by City staff.
2020	N/A	No Schedule 17 submitted as there were no public works projects performed by City staff.

- Attached schedules | Schedule 21 – Risk Management

See attached Schedule 21 at [] and [ [PBC: 2020 Schedule 21](#) ]. The City self-insures for unemployment compensation benefits, which was last audited in FY18. Self insurance programs are required to be audited every two years. There is risk the County does not have adequate internal controls to ensure compliance with individual self insurance program requirements, including solvency requirements. We will bring this risk forward to brainstorm at [ [Brainstorm Conference + Audit Plan](#) ].

- Attached schedules | Schedule 22 – Annual Audit Assessment (if applicable)

Schedule 22 is not applicable to the City as we are not performing an assessment audit.

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- If the government reports on a cash basis, auditors should also review the Yellow Flag report to determine if reported financial information is reliable enough to use for analytical procedures.

The City reports on a cash basis. We scanned the Yellow Flag report at [\[Yellow Flag Report \(2019 and 2020\)\]](#) and determined financial information is reliable enough to use for analytical procedures. We will review the Yellow Flag report in further detail as part of financial statement audit baseline procedures at [\[Yellow Flag Report\]](#).

### B.2.PR.G - Accountability Planning - Local Govt

*Procedure Step:* Understanding Entity & Environment

*Prepared By:* TLJ, 10/7/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion.*
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#### **Purpose:**

To gain an understanding of the government's operations, environment and entity-wide COSO elements and identify items to consider in assessing audit risks.

#### **Conclusion:**

We gained an understanding of the entity and its environment sufficient to plan and perform the audit. Based on our review of the planning guide and other procedures, we noted **the following** potential accountability risks:

- **EFT controls (Required risk to assess):** Due to the increase in the number of payroll and vendor EFT cyber related frauds, testing EFT controls is a required risk to assess for all entities we audit. There is risk the City does not have adequate controls in place over changing and updating EFT payment information and to ensure payments are valid. Per inquiry, the City utilizes EFT disbursements for Federal (IRS), certain state governmental agencies, and payroll direct deposits. All other vendors are required to be paid via the City's invoice/check accounts payable process.
- **Financial Condition (Required risk to assess):** There is risk COVID-19 has impacted the County's cash/fund balance sufficiency. Governments need sufficient reserves to operate and respond to emergencies. Very low reserves (i.e. below the benchmark) often indicates an entity is already in fiscal distress or might easily become distressed should something unexpected occur. We performed a

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financial condition analysis for FY2019 and FY2020 and did not identify any financial warning indicators. However, as this area is a required risk to assess, we will bring this risk forward to brainstorm.

- **Vision Software - Cash receipting (Required risk to assess):** Like any cash receipting system that is segregated from the financial system, there is a risk that not all cash received is captured and communicated to the financial system. Per our review of the audit history matrix and FY18 Teammate file, cash receipting was reviewed without issue. However, as this area is a required risk to assess, we will bring this risk forward to brainstorm.
- **Vision Software - User access (Required risk to assess):** There is a risk that users have excessive rights to modules because Vision's user access is based on two settings: read-only or full access. Therefore, any user with full access to a module can perform all functions within that module. There is also a risk local governments are not evaluating user access timely due to the lack of reporting capabilities from the system.
- **Payroll leave - accruals, tracking, buyouts (Required risk to assess for fire departments):** Payroll is inherently risky with fire districts due to the variety of ways payroll is earned. Beyond regular payroll, you can expect fire fighters to earn income for things such as overtime and wild land fire deployment depending on the district. There has been an increase in the number of exceptions and frauds related to leave accruals, tracking and buyouts due to lack of supporting documentation for how leave is tracked. Individuals responsible for tracking and calculating any leave balances or buyouts need to have a process in place to ensure leave accruals, balances, buyouts, and any adjustments are accurate. There is a risk the City does not have adequate controls over its payroll leave process.
- **General disbursements:** Last reviewed in FY10. There is risk the City does not have adequate controls over general disbursements.
- **Payroll:** Last reviewed in FY12. There is risk the City does not have adequate controls over payroll disbursements or leave accruals.
- **Cost allocations:** Last reviewed in FY18 which resulted in a management letter recommendation. There is risk the City did not address prior audit recommendations over cost allocation.
- **Small and attractive assets:** Last reviewed in FY18 which resulted in a management letter recommendation. There is risk the City did not address prior audit recommendations over small and attractive assets.

**We will bring these risks forward to brainstorm at [Brainstorm Conference + Audit Plan].**

Conclusions based on our evaluation of entity operations and entity-wide COSO elements are documented in the corresponding permanent file steps.

Testing Strategy:

The following procedures are **required** to be done:

- **Review the applicable planning guide(s)**

*Any required risks to assess that are listed in the planning guide must be identified as a red flag and evaluated at the planning conference brainstorm for applicability and significance.*

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- **Update the "Entity Operations" step in the permanent file**
- **Update the "Entity-Wide COSO Evaluation" step in the permanent file**
- **Maintain a current understanding of significant internal control systems by:**
  - Identifying significant internal control systems
  - Determining when systems were last reviewed
  - Noting a red flag for any significant systems that have not been recently addressed as a consideration for the audit plan.

*Significant internal control systems include controls over the largest parts of the governments revenues, expenditures, assets or liabilities that are subject to substantial risks of fraud, loss, abuse or noncompliance. Typically, such systems would be addressed at least every 3-4 years. However, the need to update our understanding is a judgment dependent on the circumstances of each entity and engagement and should therefore be considered along with all other red flags as part of the brainstorm and planning process.*

- Review and update government profile information in EIS

In addition to required risk assessment procedures performed in other planning steps and general inquiry, observation and inspection as part of on-site fieldwork, **consider** additional procedures, based on the government's size, complexity and anticipated risk and the auditor's experience. Additional procedures may include:

- Review recent Client Helpdesk questions submitted by the government, which can be viewed in Helpdesk tab of EIS.
- Inquiry with management and other key employees. For example, auditors may ask about any significant events or changes occurring since the prior audit (ex: new debt, major construction, new software, etc).
- Scan the entity's budget and/or comprehensive plan.
- Review list of resolutions passed during the period.
- Review the entity's website.
- Tour facilities.
- Identify significant sources of restricted funds.
- Review list of contracts awarded or contract activity reports.
- Identify significant revenue and expenditure streams.
- Identify cash receipting locations.
- Obtain a list of petty cash, change funds and imprest funds.

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- Scan bank account and investment statements or financial statement notes to evaluate investment activity and the types of investments and accounts used.
- Review Public Disclosure Commission filings for elected officials or request information on personal or family businesses and land holdings from appointed officials and/or key employees.
- Scan Schedule 21 in the entity's annual report. Annual report information in LGCS can be accessed from the data tab of EIS.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [4210](#) - Planning Accountability Audits**

**[Accountability Audits](#) Planning Guide**

Record of Work Done:

**-- Limited Distribution – Confidential SAO Information, May Be Protected Under RCW 42.56.420 --**

### **Procedures Performed to Update Understanding**

To gain an understanding of the government's operations, environment and entity-wide COSO elements, we performed the following procedures:

- Reviewed planning guide

We reviewed the Cities Planning Guide [[Cities General Planning Guide](#)]. We also reviewed the Fire District's Planning Guide since the City operates its own Fire Department [[Fire Districts Planning Guide](#)]. We noted the following required risks to assess:

- **EFT Controls:** Due to the increase in the number of payroll and vendor EFT cyber related frauds, testing EFT controls is a required risk to assess for all entities we audit. Of primary importance is to discuss controls related to changing existing EFT associated bank account numbers. Individuals with the ability to change or add EFT accounts need to have clear guidance on the process to authorize these changes through a proper validation method, specifically, a follow-up phone call. The majority of these frauds are prompted through email communication, but all change requests, including mail, fax and phone calls, should be followed up with a known contact using previously known contact information and not the contact information that may be provided in the request. There is risk the City does not have adequate controls in place over changing and updating EFT payment information and to ensure payments are valid. Per inquiry, the City utilizes EFT disbursements for Federal (IRS), certain state governmental agencies, and payroll direct deposits.



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All other vendors are required to be paid via the City's invoice/check accounts payable process. We will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].

- **Financial Condition:** Governments have experienced a wide range of negative economic and operational effects as a result of COVID-19. We would expect that most governments have and will need to cope with reduced and/or delayed revenues and increased expenses. However, these effects may vary widely by government and will depend on a number of factors, including the government's policy or program responses to the pandemic, the extent of any offsetting decreases in other expenses, state or federal relief funding, and the strength of its financial condition to start with. There is risk COVID-19 has impacted the County's cash/fund balance sufficiency. Governments need sufficient reserves to operate and respond to emergencies. Very low reserves (i.e. below the benchmark) often indicates an entity is already in fiscal distress or might easily become distressed should something unexpected occur. We performed a financial condition analysis for FY2019 and FY2020 at [Financial Intelligence Tool 2019](#) and [Financial Intelligence Tool 2020](#). We did not identify any financial warning indicators. However, as this area is a required risk to assess, we will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].
- **Vision Software Fraud Risks:**
  - **Cash Receipting:** Like any cash receipting system that is segregated from the financial system, there is a risk that not all cash received is captured and communicated to the financial system. This vulnerability has been extremely abused by some of the towns and cities that use Vision Software. Historically, Vision did not have a report available to monitor unattached receipts from the receipting system and many cities and towns lacked proper monitoring of the system to timely capture frauds using this vulnerability. Vision now has a report that captures any receipts in the cash management module that was not attached to a deposit. Per our review of the audit history matrix and FY18 Teammate file, cash receipting was reviewed without issue. However, as this area is a required risk to assess, we will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].
  - **User Access:** There is a risk that users have excessive rights to modules because Vision's user access is based on two settings: read-only or full access. Therefore, any user with full access to a module can perform all functions within that module. There is also a risk local governments are not evaluating user access timely due to the lack of reporting capabilities from the system. We will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].
- **Payroll Leave (Accruals, tracking, buyouts) - fire departments:** Payroll is inherently risky with fire districts due to the variety of ways payroll is earned. Beyond regular payroll, you can expect fire fighters to earn income for things such as overtime and wild land fire deployment depending on the district. Due to the nature of the job, it's common for fire district employees to accrue significant leave balances (sick and vacation) which often go unused and are cashed out. Collective Bargaining Agreements (CBA) and district policies regularly allow for leave buyouts. There has been an increase in the number of exceptions and frauds related to leave accruals, tracking and buyouts due to lack of supporting documentation for how leave is tracked. Individuals responsible for tracking and calculating any leave balances or buyouts need to have a process in place to ensure leave accruals, balances, buyouts, and any adjustments are accurate. Specifically, there should be documentation to support how balances, buyouts, and adjustments are calculated and in accordance with the CBA and district policies. There is a risk the City does not have adequate controls over its payroll leave process. We will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].

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- General inquiries and discussion with audit liaison [Steve Austin, Clerk/Treasurer](#), and noted no significant risks to bring to brainstorm.
  - General observation and inspection while working on site. [Not applicable as we are not working onsite due to the COVID-19 pandemic.](#)
  - Gained an understanding of the government's operations and environment, including identification of the reporting entity, key operational information and significant accounting practices. Our understanding is documented in the Permanent File section of the audit. See [\[Entity Operations - BARS Cash Basis\]](#).
  - Gained an understanding of internal control components (based on the COSO framework) for the government as a whole. Our understanding is documented in the Permanent File section of the audit. See [\[ Entity-Wide COSO Evaluation\]](#).
  - Identified and evaluated key software applications in the Permanent File section of the audit. See [\[Key Software Applications\]](#).
  - Gained an understanding of the significant internal control systems, including determination of when systems were last reviewed and identification of any red flags that have not been recently addressed. [Our understanding is documented here \[Audit History Matrix - Clarkston\]. We evaluated further in our planning AP at \[Planning Analytical Procedures\]. We noted the following risks:](#)
    - [General disbursements: Last reviewed in FY10. There is risk the City does not have adequate controls over general disbursements. We will bring this risk forward to brainstorm \[Brainstorm Conference + Audit Plan\].](#)
    - [Payroll: Last reviewed in FY12. There is risk the City does not have adequate controls over payroll disbursements or leave accruals. We will bring this risk forward to brainstorm \[Brainstorm Conference + Audit Plan\].](#)
    - [Cost allocations: Last reviewed in FY18 which resulted in a management letter recommendation. There is risk the City did not address prior audit recommendations over cost allocation. We will bring this risk forward to brainstorm \[Brainstorm Conference + Audit Plan\].](#)
    - [Small and attractive assets: Last reviewed in FY18 which resulted in a management letter recommendation. There is risk the City did not address prior audit recommendations over small and attractive assets. We will bring this risk forward to brainstorm \[Brainstorm Conference + Audit Plan\].](#)
  - Reviewed and updated government profile information in EIS.
- [We reviewed and updated the government profile information in EIS as follows:](#)

*The City of Clarkston was incorporated in 1902 and currently serves approximately 7,220 citizens in Asotin County. The City provides an array of services including a sewer/sanitation system, parks and recreation services, general administration, street maintenance/improvement, fire prevention, ambulance services, public safety and animal control. An elected, seven-member Council with a separately elected Mayor governs the City. The Mayor oversees the City's daily operations as well as its approximately 60 full and part time employees. For the 2019 and 2020 fiscal years, the City operated on annual budgets of approximately \$12 million and \$14.7 million, respectively.*

### **Significant Events, Changes and Issues Noted:**

[We confirmed with City Clerk/Treasurer on 9/8/21 that there were no significant events besides the COVID-19 pandemic during the audit period.](#)

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In response to the COVID-19 pandemic, the City implemented a hiring freeze and no pay raises for City staff in FY2020. The City also received approximately \$324,225 in CRF funds in FY2020). We noted no significant risks to bring to the accountability brainstorm.

### B.2.PR.G - Accountability Planning - Local Govt

*Procedure Step:* FS & SA Audits Performed by Others

*Prepared By:* TLJ, 9/8/2021

*Reviewed By:* HVB, 10/13/2021

Purpose/Conclusion.

**Purpose:**

To identify potential accountability risks to consider in the planning conference brainstorm from audits performed by other auditors.

**Conclusion:**

We identified no financial statement audit work performed by an external CPA.

Testing Strategy.

Auditors are **required** to review the following for information relevant to accountability audit objectives.

### **AUDITS PERFORMED BY OTHERS**

**STEP 1: Identify** financial and/or single audits performed by external auditors.

Determine if an entire financial statement and/or single audit(s) of the entity was performed by other auditors. Ensure the following required steps have been completed in compliance with SAO Audit Policy 3510 for use of external auditor's work. **Note: Review work may have been performed by another team, depending on the location of the CPA firm. Prior to performing the following steps, verify the status of the CPA review.**

- Discuss with Audit Manager; has review been performed, if not who will be performing review.
- Team performing review will create a new audit number and set up a separate TeamMate file for the CPA Audit Review.

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- In the separate TM file, the team performing review will use the **CPA Audit Review steps** in the Special Engagements folder in the Store.
- This TeamMate file must be completed prior to planning the accountability audit (code time to "CPAP").
- If unable to complete the review in time for planning the accountability audit, re-evaluate the timing of the accountability audit and/or discuss the timing with your Assistant Director.

If part of the financial statement audit is performed by other auditors review the SAO financial statement audit to identify the scope. SAO Audit Policy 3510 requires staff to review the CPA workpapers if the portion of the primary government audited is 1) significant to the primary government (such as a Utility fund to a City) **and** 2) in lieu of an SAO audit. For CPA audits that do not meet these criteria no workpaper review is required. However, we still need to consider the audit results and any potential impact.

### **STEP 2: Review** identified audits for work and exceptions.

Auditors should perform the following steps as they relate to the accountability audit objectives.

When the external audit is of the entire financial and/or single audit or a significant portion of the primary government:

- Obtain the TM file for the CPA Audit Review.
- Review the Concluding Step in the TM file.
- Review the CPA Review Checklist. Questions on checklist to specifically review for accountability audit objectives:
  - questions 10 & 21 – list of material compliance requirements identified and testing performed
  - questions 12 & 20 – list of significant risks identified and testing performed
  - question 25 – any known or likely misstatements missed
  - question 33 – conclusion on entity's going concern
  - questions 34, 35, 36 – misstatements identified
  - question 42 – report modifications
  - questions 43 & 44 – evidence of fraud, noncompliance or abuse
  - questions 45, 46, 47 – audit results, significant deficiencies, material weaknesses, other recommendations
  - question 50 – any other areas tested that leverage potential risks in our audits
  - question 51 – any other issues or red flags that should be considered in our audits
- Review the Close Out Letter for any concerns with the audit documentation or report.

For audits of part of the primary government (not significant and not in lieu of an SAO audit):

- Obtain a copy of the audit report. If the SAO financial statement audit has been completed it should be in the related TM file.
- Review the Audits Performed by Others step (in f/s planning).

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**STEP 3: Document** scope and results of identified audits, identifying areas of risk or areas that can be leveraged.

Auditors should document the following as they relate to the accountability audit objectives.

- Briefly document the scope and results of the other audit. (Such as fiscal year, opinion issued, findings, other recommendations, etc.)
- Document areas of risk to consider in the accountability audit based on review of the items in Step 2 (red flags).
- Document areas addressed by external auditors that potentially minimize risk for the accountability audit based on review of the items in Step 2.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [3510](#) – Use of External Auditors’ Work for Local Government Audits**

**SAO Audit Policy [4210](#) - Planning Accountability Audits**

**[Accountability Audits](#) Planning Guide**

**[Review Work of Others](#) Planning Guide**

Record of Work Done:

We noted the following information relevant to the accountability audit:

### **Financial Statement Audits:**

We identified no financial statement audit work performed by an external auditor.

### **Single Audits:**

We identified no single audit work performed by an external auditor.

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## B.2.PRG - Accountability Planning - Local Govt

*Procedure Step:* Other Engagements & FAWF

*Prepared By:* TLJ, 10/25/2021

*Reviewed By:* HVB, 10/25/2021

Purpose/Conclusion:

-- Limited Distribution – Confidential SAO Information, May Be Protected Under RCW 42.56.420 --

### **Purpose:**

To identify potential accountability risks to consider in the planning conference brainstorm from other engagements and the FAWF.

### **Conclusion:**

Based on our review of other engagements and the FAWF, we noted **the following** potential risks to bring to brainstorm (see: Brainstorm Conference + Audit Plan)

- **Vision - Cash Receipting:** Like any cash receipting system that is segregated from the financial system, there is a risk that not all cash received is captured and communicated to the financial system. This vulnerability has been extremely abused by some of the towns and cities that use Vision Software. Historically, Vision did not have a report available to monitor unattached receipts from the receipting system and many cities and towns lacked proper monitoring of the system to timely capture frauds using this vulnerability. Vision now has a report that captures any receipts in the cash management module that was not attached to a deposit. Per our review of the audit history matrix and FY18 Teammate file, cash receipting was reviewed without issue. However, as this area is a required risk to assess, we will bring this risk forward to brainstorm.
- **Vision - User Access:** There is a risk that users have excessive rights to modules because Vision's user access is based on two settings: read-only or full access. Therefore, any user with full access to a module can perform all functions within that module. There is also a risk local governments are not evaluating user access timely due to the lack of reporting capabilities from the system. We will bring this risk forward to brainstorm.
- **Financial Statement Preparation:** There is a risk that the County did not have adequate controls in place to ensure that prior year recommendations were brought forward to the current year's financial statements.

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We also noted the following prior audit issues that we will evaluate here [LOR Summary](#) and make issues of them there:

- Accountability Audit: Interfund Transactions - Cost Allocation plan (Management Letter)
- Accountability Audit: Safeguarding of Assets/Property - Theft Sensitive Assets (Management Letter)
- Accountability Audit: IT Security - Data Integrity (Exit Item) -

Testing Strategy:

**Review of the financial statement and/or single audit work performed by external auditors is done in the step FS & SA Audits Performed by Others.**

Auditors are **required** to review the following for information relevant to accountability audit objectives:

### **FAWF**

Review Future Audit Work File (FAWF) items.

### **OTHER AUDITS, ENGAGEMENTS & STUDIES**

**STEP 1: Identify** other engagements that may be relevant to accountability audit objectives by:

- Checking the Entity Information Suite (EIS) "Reports" tab to identify prior SAO audits and special investigations.
- Checking the Entity Information Suite (EIS) "Special Investigations" tab to identify prior and in-progress SAO audits and special investigations.
- If applicable, inquiry with internal auditors and reviewing results of internal audit work to identify any potential risks. However, reliance may not be placed on the work of internal auditors unless requirements of audit policy 3520 are followed.
- Inquiry with management to identify any non-SAO audits, engagements or studies related to accountability audit objectives.

**STEP 2: Review** identified engagements that relate to accountability audit objectives for relevant work and exceptions. Auditors should specifically consider:

- Scope and issues from the prior accountability audit (findings, management letters or exit items)
- Whistleblower investigations (note: open investigations should be coordinated with Sarrah Superville)
- Fraud investigations (note: open investigations should be coordinated with Stephanie Walker)
- Hotline concerns
- Scope and issues from the financial statement and single audit, if applicable. This analysis will be documented in the Audits Performed by Others step for any part of the financial or single audit done by a CPA firm.

*Auditors should consider areas tested during the financial statement audit that also relate to accountability risks, such as revenue or expenditure testing that addresses accountability risks, testing for the rights & obligations assertion, testing related party transactions,*

## City of Clarkston

*cost allocation plans, self-insurance, extraordinary transactions, debt covenants, etc.*

- Work of internal auditors, if applicable (see Audit Policy 3520 for requirements on use of work of internal auditors).
- Other non-SAO audits, attestation engagements or studies that directly relate to accountability audit objectives (see Audit Policy 3530 for requirements on use of grant or oversight agency work as audit evidence).

**STEP 3: Inquire** about the entity's asserted status of any relevant recommendations or findings. For prior audit findings and management letters, auditor should first check the Entity Reported Status in Tracker and then ask the entity whether the Tracker information is current and for further details as needed.

*If the Entity Reported Status is not completed or up-to-date, auditors should encourage the client to update it. However, it is not the auditor's responsibility to ensure it is filled out if the client does not take this opportunity.*

Further follow-up procedures to determine whether the issue was resolved may be performed at this point or incorporated into the audit plan.

Guidance/Criteria.:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [3410](#) – Follow Up on Previous Audits**

**SAO Audit Policy [4210](#) - Planning Accountability Audits**

**[Accountability Audits](#) area guide**

**[Tracker Quick Reference Guide](#)** - provides auditor instructions about updating Tracker

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**BARS [3.10.2](#) Reporting Losses of Public Funds or Assets or Other Illegal Activity**

**RCW [43.09.185](#) Loss of Public Funds-Illegal Activity-Report to State Auditor's Office** - requires that all state agencies and local governments immediately notify SAO in the event of a known or suspected loss of public funds or other illegal activity



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Record of Work Done:

### -- Limited Distribution – Confidential SAO Information, May Be Protected Under RCW 42.56.420 --

We noted the following information relevant to the accountability audit:

#### **Future Audit Work File items:**

Since the conclusion of the last audit, we monitored for any potentially relevant media reports, correspondence and observations from other audits and statewide activities. We reviewed the FAWF (see:[FAWF Review](#)) for items relevant to the accountability audit and noted the following:

#### **Vision Software Fraud Risks:**

- **Cash Receipting:** Like any cash receipting system that is segregated from the financial system, there is a risk that not all cash received is captured and communicated to the financial system. This vulnerability has been extremely abused by some of the towns and cities that use Vision Software. Historically, Vision did not have a report available to monitor unattached receipts from the receipting system and many cities and towns lacked proper monitoring of the system to timely capture frauds using this vulnerability. Vision now has a report that captures any receipts in the cash management module that was not attached to a deposit. Per our review of the audit history matrix and FY18 Teammate file, cash receipting was reviewed without issue. However, as this area is a required risk to assess, we will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].
- **User Access:** There is a risk that users have excessive rights to modules because Vision's user access is based on two settings: read-only or full access. Therefore, any user with full access to a module can perform all functions within that module. There is also a risk local governments are not evaluating user access timely due to the lack of reporting capabilities from the system. We will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].

#### **Prior Accountability Audit Exceptions:**

We reviewed the audit issues identified by the previous audit as documented in [[Prior Audit Issue Review](#)]. For each issue, we checked the Entity Reported Status in Tracker and inquired with Clerk/Treasurer Steve Austin regarding corrective action and the current status of the issue. We also evaluated the significance of potential effects in order to conclude on the extent of follow-up procedures needed. We noted the following red flag and three repeat issues:

Red Flags we will bring to brainstorm:

- Financial Statements: Financial Statement Preparation - See conclusion above for link to brainstorm.

Repeat Issues:

- Accountability Audit: Interfund Transactions - Cost Allocation plan (Management Letter) - **See conclusion above for link to evaluation and issue.**
- Accountability Audit: Safeguarding of Assets/Property - Theft Sensitive Assets (Management Letter) - **See conclusion above for link to evaluation and issue.**

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- **Accountability Audit: IT Security - Data Integrity (Exit Item) - See conclusion above for link to evaluation and issue.**

### **Citizen Hotline:**

We checked EIS for any relevant citizen hotline referrals and noted **no** risk indicators.

### **Fraud / Loss Reports:**

Governments are required by law to notify our office of any known or suspected fraud, losses or illegal acts. We checked EIS for any relevant loss reports or investigations and noted **no** risk indicators.

### **Financial and Single Audit:**

We reviewed the FY16-18 financial statement audit and noted **no** risk indicators.

The government did not receive a single audit in the prior audit (FY16-18).

### **Internal Audits:**

We identified **no** relevant internal audit function.

### **Other Engagements:**

We inquired with Clerk/Treasurer Steve Austin on 9/8/21 regarding other audits or engagements that may be relevant to the accountability audit and noted none.

### **B.2.PRG - Accountability Planning - Local Govt**

*Procedure Step:* Minutes

*Prepared By:* TLJ, 10/8/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion:
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### **Purpose:**

To identify potential accountability risks to consider in the planning conference brainstorm by reviewing minutes of the governing body.

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## **Conclusion:**

Based on our review of minutes, we noted **the following** potential risks to bring to brainstorm (see: [Brainstorm Conference + Audit Plan](#))

- **Procurement:** There is risk the City does not have adequate controls in place to ensure public works projects, A&E services, and purchases comply with applicable procurement requirements.

## Testing Strategy:

Auditors are **required** to review minutes from the beginning of the period through the end of the audit.

Auditors should check with the AIC to determine if there are any known risks or items to look for. **Examples of risk indicators** and important information to note for an accountability audit are as follows:

- Resolutions, ordinances or policies relevant to accountability objectives.
- Discussion of citizen, vendor or management concerns relevant to accountability objectives.
- Any actions that appear unreasonable, unexpected or outside the scope of the entity's authority.
- Decisions in which board members are abstaining due to potential conflicts of interest.
- Debt issuance.
- Discussion of possible financial difficulties or business risks.
- Significant awarded contracts or public works projects or risk indicators such as:
  - Governing body approval to waive bidding requirements for purchases or public works projects (ex: for sole source or emergency reasons).
  - Use of alternative public works procedures such as design-build or general contractor / construction manager procedures.
  - Discussion of vendor protests or complaints about bid procedures or results.
  - Approval of large or numerous change orders.
  - Discussion of significant cost over-runs or other problems with public works projects.
- New software or conversions.

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- Situations that may trigger major liabilities or impairments, such as disasters, significant losses of capital or infrastructure assets or major lawsuits.
- Transfers or interfund loans.
- New grants, revenue sources or rate changes.
- New cost allocation plans.
- New entities, joint ventures, programs, or activities

### **Compliance with Open Public Meetings Laws:**

During the review of minutes auditors should be alert for any apparent non-compliance with open public meetings requirements, such as:

- Absence of quorum
- Official actions of governing body do not appear to be documented in minutes
- Actions or decisions known to have occurred are absent from minutes
- Purpose of executive sessions not identified in minutes
- Executive sessions appear to be for unallowable purposes
- Minutes do not appear to have been taken for regular meetings, workshops or special meetings
- Business conducted at special meetings was not for the published reason meeting was scheduled

Guidance/Criteria:
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [4210](#) – Planning Accountability Audits**

**[Accountability Audits](#) Planning Guide**

**[Reviewing Minutes](#)** – SAO training for reviewing minutes

### **AUDIT CRITERIA**

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Key criteria that auditors will likely use when testing this area.

**RCW [42.30](#) Open Public Meetings Act** – complete chapter on OPMA, including executive sessions found in RCW 42.30.110

Record of Work Done:

## **Meeting Minutes Review:**

We reviewed the minutes from 1/7/2019 through 7/26/2021 (see: [Meeting Minutes Review - Clarkston](#)) and noted **the following** potential risks to bring to brainstorm:

- **Procurement:** There is risk the City does not have adequate controls in place to ensure public works projects, A&E services, and purchases comply with applicable procurement requirements. We noted the following activity in our review:
  - Public works projects:
    - 2019 Street Maintenance Bid Award: Poe Asphalt for the amount of \$255,000,
    - Approved Award of 2020 Street Maintenance Project - Poe Asphalt for the amount of \$311,764.80
    - Approved Local Agency Contract with White Diamond Concrete for 2020 Sidewalk Repair Project for the amount of \$240,311.45
  - A&E services:
    - City approved a contract for Local Agency A&E Services with Keller Associates for Bridge Street Project for \$91,620.00
    - Approved Authorization to Sign Agreement for Professional Services with Keller Associates, Inc. for Diagonal Street Project in the amount of \$71,900
    - Approved Agreement for Professional Services with Keller Associates for \$129,000
    - Approved Local Agency Agreement with Keller Associates, max amount of \$155,160
  - Purchases:
    - Approved Resolution 2019-18, Cardiac Monitor Purchase (Finance/Admin) from Zoll Corporation for four cardiac medical devices for \$138,559.06
    - Approved Resolution 2019-21, purchase of 25 Self-Contained Breathing Apparatus packs for \$201,477.35

We will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].

## **Compliance with Open Public Meetings Laws:**

During the review of minutes auditors we did not identify any apparent non-compliance with open public meetings requirements.

## **B.2.PR.G - Accountability Planning - Local Govt**

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**Procedure Step:** Planning Analytical Procedures  
**Prepared By:** TLJ, 10/7/2021  
**Reviewed By:** HVB, 10/21/2021

### Purpose/Conclusion.

#### **Purpose:**

To identify potential accountability risks to consider in the planning conference brainstorm by performing planning analytical procedures.

#### **Conclusion:**

Based on our planning analytical procedures, we noted **the following** potential risks to bring to brainstorm [ [Brainstorm Conference + Audit Plan](#)]:

- **Procurement:** There is risk the City does not have adequate controls in place to ensure public works projects, A&E services, and purchases comply with applicable procurement requirements.
- **General disbursements:** Last reviewed in FY10. There is risk the City does not have adequate controls over general disbursements.
- **Payroll:** Last reviewed in FY12. There is risk the City does not have adequate controls over payroll disbursements or leave accruals.
- **Cost allocations:** Last reviewed in FY18 which resulted in a management letter recommendation. There is risk the City did not address prior audit recommendations over cost allocation.
- **Small and attractive assets:** Last reviewed in FY18 which resulted in a management letter recommendation. There is risk the City did not address prior audit recommendations over small and attractive assets.

### Testing Strategy.

Auditors are **required** to perform planning analytical procedures to identify risk.

Auditors are encouraged to develop analytics to match the entity's circumstances, activities and risks. The following are **examples** of common planning analytical procedures:

- Trend analysis of revenues and expenditures

*Auditors would generally start with high level analytics (such as revenues by fund and 2-digit BARS or expenditures by fund and object)*

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*before considering more detailed trends (ie: to sub-account) for certain high risk funds or accounts.*

- Total payments by vendor
- Total payroll by employee
- Trend payroll by department or type of pay (ie: overtime, recognition leave, time loss, exchange time, etc)
- Total amounts passing through petty cash funds, imprest accounts and/or credit cards
- Surprise cash counts

### **CAATS Considerations**

When analytical procedures involve CAATS, the following documentation guidelines should be followed:

- Databases should not be included in TeamMate. Only relevant query results should be included in audit documentation. This can be done with imported report documents, copied query excerpts, narrative description of queries and results, or other means.
- When used as audit evidence, auditors should document where and how they obtained data and how they verified or were reasonably assured of the completeness and accuracy of the data.

*FAP data is not validated in detail by Team Local ISA.*

### **\*\*NEW\*\* School District Considerations**

FAP accounting data for schools is centrally gathered by IT Audit. Links to standard queries are located in EIS under the Data tab. An optional work paper is available in TeamStore to help select and organize queries for planning purposes.

Guidance/Criteria.
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

Planning AP differs from AP used as a substantive test in that the purpose of the procedure is discovery rather than substantiation. Although expectations of some sort are necessary for effective AP, expectations used for planning AP are often very general and do not need to be documented. Expectations may be derived from events or changes in activity noted during other planning steps, budgets, prior year figures, figures for comparable entities, or general understanding of relationships between activities and financial figures.

**SAO Audit Policy [4210](#) - Planning Accountability Audits**

**[Accountability Audits](#) Planning Guide**

# City of Clarkston

## Record of Work Done:

We performed the following planning analytical procedures to identify risks to bring to our brainstorm.

### Trend analysis of revenues and expenditures:

We completed the analysis of the City's revenues and expenditures at ([Financial Trend.xlsx](#) & [5-Year Expenditure Trend](#)). We noted the following risk to bring to brainstorm:

- **Procurement:** Risk that the City did not follow proper bidding and procurement requirements regarding A&E services and did not select the most qualified firm. We will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].

### Total payments by vendor:

We obtained a vendor trend from FAP to trend vendor payments from 2018 through 2020, We reviewed the trends to determine if there were any abnormal fluctuations or unusual vendor payments that occurred in FY19 and FY20. We highlighted those vendors in our spreadsheet at ([Vendor Trend](#)). Per our review we noted the following:

- **Procurement:** There is risk the City does not have adequate controls in place to ensure public works projects, A&E services, and purchases comply with applicable procurement requirements. We will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].
  - Poe Asphalt Paving Inc, Expenditures: FY19:\$309,988.85; FY20: \$226,160.1
  - White Diamond Concrete, LLC , Expenditures: FY19: \$0; FY20: \$269,294
  - Motorola Solutions, Inc , Expenditures: FY19: \$3,887.96; FY20: \$176,215.45
  - L.N. Curtis & Sons, Expenditures: FY19: \$1,829.70; FY20: \$221,860.83
  - Zoll Medical Corporation, FY19: Expenditures: FY19: \$139,198.75; FY20: \$7,459.72
  - Keller Associates, Expenditures: FY19: \$62,282.20; FY20: \$323,202.65

### Total payroll by employee:

We obtained a payroll trend from FAP to trend payroll changes from 2018 through 2020 See ([Payroll Trend](#)). We noted no additional significant risks to bring to brainstorm.

### Accountability Audit History Matrix:

We reviewed the audit history matrix at ([Audit History Matrix - Clarkston](#)). We noted the following risks:

- **General disbursements:** Last reviewed in FY10. There is risk the City does not have adequate controls over general disbursements. We will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].
- **Payroll:** Last reviewed in FY12. There is risk the City does not have adequate controls over payroll disbursements or leave accruals. We will bring this risk forward to brainstorm [[Brainstorm Conference + Audit Plan](#)].



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- **Cost allocations:** Last reviewed in FY18 which resulted in a management letter recommendation. There is risk the City did not address prior audit recommendations over cost allocation. We will bring this risk forward to brainstorm [Brainstorm Conference + Audit Plan].
- **Small and attractive assets:** Last reviewed in FY18 which resulted in a management letter recommendation. There is risk the City did not address prior audit recommendations over small and attractive assets. We will bring this risk forward to brainstorm [Brainstorm Conference + Audit Plan].

### B.2.PRG - Accountability Planning - Local Govt

*Procedure Step:* Risk Assessment Inquiry

*Prepared By:* TLJ, 10/20/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion.:

**Purpose:**

To identify potential accountability risks to consider in the planning conference brainstorm from inquiry with management.

**Conclusion:**

Based on our inquiry, we noted **no** potential risks to bring to brainstorm.

Testing Strategy.:

Auditors are **required** to use the attached workpaper to inquire with the following key personnel, at minimum:

- Appropriate members of management with overall responsibility for financial and operational matters.

*Generally, this will be the chief executive officer (e.g. city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer). But it may be or include deputy officers or members of the governing body depending on the structure of responsibilities and oversight or due to potential conflicts of interest or lack of segregation of duties. Auditors need to use professional judgment to determine the appropriate persons to communicate with depending on the circumstances.*

- A member of the governing body or audit committee, as applicable.

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- Internal audit personnel, if applicable

Also **consider** inquiries of others.

*For example, the human resource manager, key accounting staff, facility manager, prosecuting attorney or managers responsible for operation of significant components or functions of the government. Also, consider talking with employees who may be able to corroborate information from management or others.*

Inquiry should be performed using the following **guidelines**:

- Inquiry should be done in person whenever possible, rather than by phone or email.
- Due to the potential sensitivity of certain questions, auditors should be careful to ask them in a professional manner.
- The inquiry should be a conversation - auditors should be prepared to explain terms, rephrase questions in their own words and ask follow-up questions.

*Auditors should be prepared to prompt the auditee with follow-up questions regarding potential risks described in the planning guide, identified in prior audits or identified in other planning steps.*

- The workpaper describes the minimum extent of the inquiry as a whole, although not every question will be applicable to every person interviewed. Also, auditors should consider additional questions about identified risks or controls as necessary.

Document response details in the attachment and a summary of procedures, results and conclusions about audit-relevant risks in the step.

When performing inquiries and evaluating responses, auditors should specifically consider:

- Whether responses generally agree with each other, and what any significant differences between the responses may imply (other than normal expected differences in opinion or perspective among professionals).
- Whether responses generally agree with other planning information and risk assessment conclusions of the audit, and what any significant differences may imply.
- Whether any responses indicate potential management override of controls or fraud, or any new risks that might need specific follow-up in planning.
- Whether any management communications, assessments or action taken in response to risks that were discussed in the inquiry might represent useful documentation or evidence for audit work.
- Whether management has planned or taken appropriate action for risks they have identified. And if not, the reasons for not doing so (ex: insufficient resources or other limitations, lack of consensus within the government, operational difficulties, etc).

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Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [4110](#) - Objectives and Authority for Accountability Audits**

**SAO Audit Policy [4210](#) - Planning Accountability Audits**

**[Accountability Audits](#) Planning Guide**

Record of Work Done:

Governments are required by state law (RCW 43.09.185) to report to our office any known or suspected loss of public funds or assets or other illegal acts. Citizens and employees may also contact our Office's citizen hotline to report known or suspected fraud or abuse. We reviewed loss reporting and citizen hotlines as documented in the *Other Engagements & FAWF* step. We also made general inquiries and observations throughout the planning process.

In addition to these steps, we performed formal inquiries with key personal regarding the government's understanding and assertions about their risks and responses as follows:

### **Determining Extent of Formal Inquiries:**

Based on our understanding of the government, consideration of appropriate persons and other planning procedures, we determined that formal risk assessment inquiries would be conducted with the following people:

- [Steve Austin, Clerk/Treasurer - \(Risk Assessment Inquiry Questions\)](#)
- [Monika Lawrence, Mayor - \(Risk Assessment Inquiry Questions\)](#)
- [Skate Pierce, City Council Member & Mayor Pro Tem - \(Risk Assessment Inquiry Questions\)](#)

### **Results of Inquiries:**

We evaluated responses individually, compared to each other, and compared to results of other planning steps in order to conclude on risks.

[We conclude:](#)

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- Responses generally agree with each other.
- Responses generally agree with other planning information and risk assessment conclusions of the audit.
- Responses do not indicate potential management override of controls or fraud.
- Management has planned or taken appropriate action for risks they have identified.

### **B.2.PRG - Accountability Planning - Local Govt**

*Procedure Step:* AC Brainstorm  
*Prepared By:* TLJ, 10/27/2021  
*Reviewed By:* HVB, 10/27/2021

Purpose/Conclusion:

#### **Purpose:**

To discuss and evaluate accountability risks among key members of the audit team in order to develop the overall audit strategy.

#### **Conclusion:**

The audit team has evaluated the risks and developed the overall audit strategy. During the course of our brainstorm, we noted **no** new risks that were included in the plan.

Testing Strategy:

Auditors are **required** to perform all the following steps:

#### **Brainstorming Discussion (Planning Conference)**

Hold a planning conference brainstorm with key members of the audit team. To allow the brainstorming process to effectively evaluate and finalize scope decisions and design further audit procedures:

- All planning steps should be completed and reviewed prior to brainstorm.
- The AIC should be prepared with a proposed priority of risks to include in the audit.

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- The planning conference brainstorm should take place in person or on the phone.
- Use professional judgment in determining which audit team members should be included in the discussion. The brainstorm should include, at minimum, the key members of the audit team. Normally, this would be the AIC, Supervisor and Audit Manager. This could also include other members of the current audit team, member of the team that performed the CPA Review, the prior AIC, specialists or program manager or others. Managers should consider the experience of the AIC and Supervisor and the size and risk of the audit in determining who should attend and the timing and extent of brainstorming discussion.

At a minimum, the discussion is **required** to include the following topics:

### Understanding of Entity:

Consider how our understanding of the entity, its environment and its operations might affect and inform our accountability audit. What types of risks are most important to address? What areas are most susceptible to fraud, loss, abuse or noncompliance? Are there any significant systems that haven't been reviewed in the last 3-4 years or our understanding needs to be updated?

### Other Audits:

Consider the scope and results of financial or single audits performed by SAO or external CPA firms and how these audits might affect and inform our accountability audit. Were there indications of risk that we should consider in our accountability audit? Was there work performed in other audits that would address accountability areas?

### Results of Planning Steps:

Review the results of planning procedures. Does planning indicate a low, moderate or high risk audit?

### Red Flags:

Discuss each red flag identified by planning and consider the need for further audit procedures.

### Results of Analytical Procedures:

Discuss risk indicators or unexpected relationships noted in planning analytical procedures. Do any unusual or unexpected relationships identified indicate risks of fraud, loss, abuse, noncompliance or financial distress?

### Other Information and Experience:

Discuss any major changes occurred; any unusual events or transactions identified. Does any other information or experience with the entity indicate risks of fraud, loss, abuse or noncompliance?

### Responses to Audit Risks:

Determine the best way to respond to identified risks. Consider the relevance and potential impact of the risks identified, as well as necessary

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resources.

### Importance of maintaining professional skepticism:

Supervisors should emphasize the need to maintain professional skepticism throughout the audit and highlight any areas of potential concern or where special care or consideration may be needed.

Discussion among the engagement team about risks should continue throughout the audit. Auditors do not need to document every discussion, but should consider documenting any additional key brainstorming discussions, particularly if there were major re-evaluations or updates to the audit plan.

### **Follow up with other members of audit team**

Information and decisions discussed may be relevant to work performed by other members of the engagement team not involved in the discussion, specialists or other auditors performing a portion of the audit. The AIC should communicate relevant matters as necessary with auditors not involved in the brainstorming discussion.

### **Communicate risks or information relevant to other SAO audits**

Appropriately communicate information or risks identified in the planning that may affect or be better addressed with a different type of engagement (for example, a financial statement audit), a future engagement, an engagement of another local government or state agency, or by other parties, such as regulatory bodies or law enforcement.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [4110](#) - Objectives and Authority for Accountability Audits**

**SAO Audit Policy [4210](#) - Planning Accountability Audits**

**[Accountability Audits](#) Planning Guide**

Record of Work Done:

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## **Brainstorm**

Date: 10/25/2021

How: discussion among key members of the engagement team via [Microsoft Teams Meeting](#)

Attendees:

- [AAM: Heide Brillantes](#)
- [AM: Alisha Shaw](#)
- [AIC: Travis Jones](#)

We discussed accountability risks identified in previous planning steps to determine priorities for areas to audit.

Subject Matter Discussed (as detailed in testing strategy):

- Our understanding of the entity
- Relevant work performed in other audits
- Results of planning steps, including:
  - All red flags identified in other planning steps
  - Results of analytical procedures
  - Other information and experience with the entity
- Audit responses to risks
- Importance of maintaining a questioning mind and exercising professional skepticism

## **Decisions Reached:**

Overall risk and responses are documented in the AC Audit Plan [[Brainstorm Conference + Audit Plan](#)].

## **B.2.PRG - Accountability Planning - Local Govt**

*Procedure Step:* AC Audit Plan

*Prepared By:* TLJ, 10/20/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion:

## **Purpose:**

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To finalize our overall audit strategy and audit plan to address identified risks in the accountability audit.

### **Conclusion:**

See documented plan in the *Record of Work Done* and attached Accountability Audit Plan.

Testing Strategy:

### **Overall Accountability Risk**

Assess overall risk for safeguarding of public resources and compliance. Planning should reflect the overall risk assessment in staffing, supervision, audit budget and the overall level of testing.

*When determining overall risk, auditors should consider the number and nature of red flags identified in planning. Auditors should also consider any structural risks that could potentially affect many audit areas, such as:*

- *Issues with overall COSO elements, such as the control environment or information systems*
- *Use of the County Treasurer*
- *Ability to segregate duties effectively*
- *Major financial distress*

### **Select Areas to Test**

Identify accountability areas selected for testing. The plan should describe each risk selected for testing (what could go wrong) and our planned audit response (further audit procedures).

#### *Changes to Audit Plan:*

Document both the original plan and any changes made during the course of the audit. Document changes to the original plan in either the "Changes to Audit Plan" step or in the Record of Work Done (e.g.: using a different font color for changes or listing changes in a separate section at the end of the plan). For changes that result in a new engagement letter or addendum in accordance with policy 2140 and 1220, refer to the Engagement Letter step in Teammate.

### **Determine Staffing & Budget**

#### *Staffing*

Identify the AIC and AAM of the audit in the Team tab of the Profile, considering the knowledge, skill, and ability of personnel assigned significant audit responsibilities and the appropriate level of supervision.

Determine whether assigned staff are independent with respect to the entity under audit and identify any threats to independence along with planned safeguards (Policy 3110). Also, consider whether assigned staff collectively possesses adequate professional competence for the tasks



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required (Policy 3140). If the audit will require the use of a specialist with expertise in a field other than accounting or auditing (Policy 3230), describe the planned nature and extent of reliance.

### *Reliance on Work of Others or in Other Audits*

If work of external auditors (Policy 3510), internal auditors (Policy 3520) or in other SAO audits is expected to be used as audit evidence in an area planned for testing (that is, more than just risk assessment information used to select or not select an area for testing or follow-up), the plan should describe the anticipated nature of this reliance.

### *Budget*

Develop a detailed audit budget, considering risks, staffing and other circumstances. Initial budget information is available in TABS. Inform your supervisor and audit manager if TABS is not correct so that changes can be requested.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [4110](#) - Objectives and Authority for Accountability Audits**

**SAO Audit Policy [4210](#) - Planning Accountability Audits**

**[Accountability Audits](#) Planning Guide**

Record of Work Done:

### **Overall Accountability Risk and Planned Audit Areas**

We assessed the overall risk and identified risks to be addressed in the accountability audit as documented in the attached Accountability Audit Plan spreadsheet [[Brainstorm Conference + Audit Plan](#)].

### **Staffing & Budget**

*Staffing* - The auditor in charge, supervisor and all assistants are listed in the Team tab of the Profile. We have planned the audit staffing to ensure that all staff are adequately supervised.

We also considered whether specialized skills are needed in performing the audit and determined that assigned personnel collectively have the

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technical knowledge, skills and experience necessary to perform the audit.

*Independence* - We considered independence in accordance with Audit Policy 3110 and 3120 and identified no threats to independence

*Reliance on work of others* - We considered the potential relevance of work performed in other engagements and the effect on our audit. We **do not** plan to rely on other SAO audits or work of others as audit evidence in any planned areas of testing .

*Budget* - We developed a detailed audit budget as documented in [PLAN\_Audit Budget 20201].

### B.2.PR.G - Accountability Planning - Local Govt

*Procedure Step:* AC Entrance Conference

*Prepared By:* TLJ, 9/7/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion.:

#### **Purpose / Conclusion:**

To communicate our audit responsibilities and the planned scope and timing of the audit to management and the governing body.

Testing Strategy.:

**If no entrance conference was held, explain the situation in the record of work done (and the Entrance Conference Explanation Field in the custom tab in the profile). The record of work done must describe how the required information above was communicated to management and those charged with governance.**

#### **BEFORE the Entrance Conference:**

- If not clearly evident from the governance structure, determine "those charged with governance" for purposes of audit communication and document our conclusion.

*Those charged with governance are those responsible for overseeing the strategic direction of the government and fulfillment of the government's objectives and obligations. In some governments, multiple parties may be charged with governance, including oversight bodies contracting for the audit, members or staff of legislative committees, boards or audit committees. The auditor's evaluation would*

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*consider how the government delegates authority and establishes accountability for management.*

- Communicate with management who will conduct and attend the Entrance conference.
- Set up the Entrance conference at a time convenient for client and SAO staff.
- Invite elected officials to the Entrance conference (see template letter available in the SAOStore).
- Prepare the Entrance conference handout the using the required template available in the SAOStore and the [Entrance Conference PowerPoint](#) using the linked template (also available in the Auditor Reference Guide). Both templates must be adjusted as necessary for each audit.

### **DURING the Entrance Conference:**

Present and discuss information on the entrance conference handout to ensure there is a clear understanding of the following areas: Scope and timing of the audit, including the month we expect to issue our report; reporting levels for audit recommendations; audit costs; audit staffing; expected communications; and other information considered important to the audit.

### **AFTER the Entrance Conference:**

- Attach the entrance conference handout and any other documents that were presented.

*Note: When attaching the entrance conference PowerPoint presentation, consider attaching as a PDF file to minimize file size.*

- Document the conference attendees (SAO and client) as well as the date of the conference.
- Document any significant conversations that might result in a change in our risk assessment or audit plan.
- Send copies of the entrance document to any elected officials who were not able to attend the conference, unless the governing body uses a finance/audit committee for contact with the auditor.

Guidance/Criteria.
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [2130](#) - Inviting Officials to Entrance and Exit Conferences**

**SAO Audit Policy [2210](#) - Conducting Entrance Conferences**

**[Accountability Audits](#) Planning Guide**

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Record of Work Done.:

See FS Entrance Conference step at [\[FS Entrance Conference\]](#).

### **B.3.PRG - BARS Cash Basis Planning**

***Procedure Step:*** Engagement Letter

***Prepared By:*** TLJ, 11/5/2021

***Reviewed By:*** AMS, 3/4/2022

Purpose/Conclusion.:

#### **Purpose / Conclusion:**

To confirm that a common understanding of the terms of the audit engagement exist with the government.

Testing Strategy.:

To confirm our understanding with the government, auditors are **required** to perform the following procedures:

- Choose the appropriate engagement letter template from TeamMate and modify it for the scope of the audit and any special needs.

*Auditors should consider the need to confirm any critical scheduling or deadline issues, access to information at key service providers or component units or other matters that may be necessary to avoid or address prior audit difficulties.*

- Have the engagement letter signed by at least the audit contact and a key oversight official (e.g. the chief executive or a member of the governing body or its audit committee). Auditors should consider whether others within the entity should also sign the engagement letter.

*The team should consider whether signatures by a representative of the governing body, the chief executive and/or a member of the audit committee would be most appropriate for the circumstances and whether others in the organization should also sign. In making this judgment, auditors should consider the risk of miscommunication or lack of communication about the audit within the government, whether deadlines may not be met, and the likelihood and nature of any audit difficulties.*

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- Determine most appropriate time to obtain a signed engagement letter, but not later than the entrance conference date. Auditors should print the engagement letter for signature to ensure it is not modified.

*Normally the engagement letter would be signed on the first day of fieldwork. However, it may be more appropriate to sign later after preliminary meetings about scheduling or at the entrance conference to facilitate signing by the governing body.*

*Note that delay or refusal to sign the engagement letter would **not** preclude us from continuing with the audit, since our audit authority is based on statute and our own policy. However, in such circumstances, auditors should proceed with caution and consult with their manager and assistant director to determine the effect on the audit and the most appropriate response.*

Contact TAS with questions or for assistance with modifications to the engagement letter.

### **Initial Audits (SAO did not audit the prior year):**

For initial audits, auditors are required to perform the following additional procedures:

- Request that management authorize the predecessor auditor to respond fully to inquiries related to their prior engagement. If management refuses to make the authorization, or authorizes only a limited response, auditors should inquire as to the reasons and consider the effect on the audit.
- Consider the effects of the predecessor auditor's response, or non-response, on the audit.

*The auditor's conclusion and any red flags should be documented in this step.*

### **Changes to the Engagement Letter:**

Auditors should carefully review management requests for major changes to engagement terms. To consider and respond to any requested changes, auditors are required to perform the following additional procedures:

- Understand management's reasoning and objective for the change.
- Discuss the requested change with their manager and, as appropriate, their assistant director and Team Audit Support.
- Auditors should not agree to changes that are not reasonably justified, including a request **during an audit** for a change in engagement type to one with a lower level of assurance.
- Changes to engagement terms **during an audit** should be documented in a new engagement letter or addendum (the addendum template is available in the Store) in accordance with Policy 2140 and 1220. Include the new engagement letter or addendum in the audit documentation and an explanation in the Record of Work Done.
- Update audit plan and related steps to reflect the changes as appropriate.

Auditors should also complete a BUCO for changes to the audit period, scope or budget to update Audit Number information.

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Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**Policy [2140](#) - Engagement Letters**  
**[Financial Statement Audits Planning Guide](#)**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

### **AU-C 210 – Terms of Engagement**

Record of Work Done:

We developed an engagement letter using our template and considering the scope and factors affecting the audit. We also considered who at the government should sign the letter and the most appropriate time to obtain the signed letter, considering the circumstances of the audit and our understanding of entity operations and the control environment. We obtained the signed engagement letter as shown at [\[Signed Engagement Letter\]](#). No further work is considered necessary.

### **Changes to the Engagement Letter:**

Due to financial statement and single audit concerns identified during the audit, we developed an amendment to the engagement letter using our template here [\[Amendment to Engagement Letter\]](#). We also completed a BUCO for changes to reflect a budget increase of 40 hours.

We obtained the signed amendment to the engagement letter here [\[Signed Amendment to Engagement Letter\]](#).

### **B.3.PRG - BARS Cash Basis Planning**

*Procedure Step:* Obtain Draft Statements from LGCS

*Prepared By:* TLJ, 9/19/2021

*Reviewed By:* HVB, 10/21/2021

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Purpose/Conclusion.

**Purpose/Conclusion:**

To obtain final draft financial statements for audit.

Testing Strategy.

To obtain final draft financial statements, auditors are **required** to perform the following procedures:

- All AICs and Supervisors who are performing their first cash basis financial audit are required to take the "[Introduction to BARS Cash Basis Financial Audits](#)" self-study training. Additionally, a suggested training for any auditors assigned to the financial statements audit who are unfamiliar with the BARS manual is the "[Introduction to the BARS Manuals 2019](#)" self-study training.
- Check the Data tab of EIS to determine whether the annual report was filed by the statutory deadline. If the government has not yet filed, request they do so to meet requirements of RCW 43.09.230 and in order to ensure the most efficient, effective audit process.

*Contact Stacie Tellers with questions on reporting levels for annual report filing issues. When governments fail to file their annual report or are so late that it is not available at the beginning of the audit, this may also require an increase in audit budget and represent a difficulty that should be discussed at the exit conference.*

- If the government has filed, confirm that statements, schedules and notes in the annual report are the final official versions for reporting purposes. If not, request that the government update the annual report so we can use the statements, schedules and notes from it for audit. **After confirming with the government, auditors should use the statements and schedules in LGCS.**

*Filing the annual report generates a print-ready C4, C5, Schedule of Liabilities and Schedule of Expenditures of Federal Awards, as applicable. Governments can view, print and update the generated statements and schedules in the Client Portal.*

*Auditors can access these statements and schedules from LGCS. If governments did not file online, they may still log in to the Client Portal and view or update information after their manual filing has been processed. However, they may have red flags to clear before they are able to generate statements and schedules. In this case, we would expect such items to be resolved prior to the audit, since red flags imply misstatements.*

*Submissions may be unlocked and re-submitted by the government as many times as necessary until an audit report for that period is*

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*entered in ARTS. AICs are included on email notifications of all submissions, unlocks and re-submissions as soon as the audit starts and the TM file is sent to TeamCentral.*

- If the government does not want to use the generated financial statements and schedules from the annual report for their audit, auditors should notify TAS-QA and LGS of the situation for assistance in considering how to proceed

If governments have any questions or difficulty with online filing or updating their online filing, direct them to contact Team LGS for assistance (such as Kayley Pagio).

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

#### **Financial Statement Audits Planning Guide**

**Introduction to BARS Cash Basis Financial Audits** - SAO self-study training

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**BARS manual 4.8.1 SAO Annual Report Schedules-Revenues/Expenditures/Expenses (Schedule 01)** - 4.8.1.20 requires updates to annual reports for any subsequent adjustments up to the time of audit completion, after issuance of the audit report, if any errors are identified they should be recorded in the next period as a prior period adjustment

**RCW 43.09.230 Local Government Accounting-Annual Reports-Comparative Statistics** - requires annual reports to be submitted to SAO within 150 days after the close of each fiscal year

#### **Other Entity-Specific Reporting Requirements**

- **Hospital Districts** - On December 6, 2005, our office issued a letter to all public hospital districts informing them that we would not consider hospitals reporting one month late (by June 30) to be a significant issue and, accordingly, would not report such late submissions as management letter or finding. This practice is due to our recognition of deadlines that Hospitals must meet to submit Medicare cost reports.



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- **Housing Authorities ([RCW 35.82.230](#))** – Authorities must file a report of its activities for the preceding year with the creating City or County.
- **Risk Pools ([RCW 48.62.091\(4\)](#))** – Annual report with certain information to State Risk Manager and State Auditor
- **Transportation Benefit Districts ([RCW 36.73.160\(2\)](#))** – Districts must issue an annual report to the public indicating the status of transportation improvement costs, transportation improvement expenditures, revenues, and construction schedules.

### Record of Work Done:

To obtain final draft financial statements, auditors are **required** to perform the following procedures:

- All AICs and Supervisors who are performing their first cash basis financial audit are required to take the "[Introduction to BARS Cash Basis Financial Audits](#)" self-study training. Additionally, a suggested training for any auditors assigned to the financial statements audit who are unfamiliar with the BARS manual is the "[Introduction to the BARS Manuals 2019](#)" self-study training.

The AIC and Supervisors have experience performing cash basis financial audits and have previously taken the Introduction to BARS Cash Basis Financial Audits self-study training.

- Check the Data tab of EIS to determine whether the annual report was filed by the statutory deadline. If the government has not yet filed, request they do so to meet requirements of RCW 43.09.230 and in order to ensure the most efficient, effective audit process.

We checked the Data tab of EIS and determined the 2019 and 2020 annual reports were filed before the statutory deadline, as seen in the table below:

Annual Report Filing			
Year	Statuary Deadline	File Date by City	Was the Statuary Deadline Met?
2019	7/1/2020	6/17/20	Yes
2020	5/30/2021	5/28/21	Yes

- If the government has filed, confirm that statements, schedules and notes in the annual report are the final official versions for reporting purposes. If not, request that the government update the annual report so we can use the statements, schedules and notes from it for audit

Not applicable. The City filed the annual reports before the statutory deadline.

- After confirming with the government, auditors should use the statements and schedules in LGCS.

We confirmed with the City Clerk Treasurer Steve Austin on 9/13/2021 that the City would like us to use the generated financial

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statements and schedules from the annual report for their audit.

- If the government does not want to use the generated financial statements and schedules from the annual report for their audit, auditors should notify TAS-QA and LGS of the situation for assistance in considering how to proceed
- Not applicable. We confirmed the City would like us to use the generated financial statements and schedules from the annual report for their audit.

### B.3.PRG - BARS Cash Basis Planning

*Procedure Step:* Understanding Entity & Environment

*Prepared By:* TLJ, 10/20/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion.

#### **Purpose:**

To identify potential financial statement risks to consider in the planning conference brainstorm by gaining an understanding of the entity's operations, environment and entity-wide COSO elements.

#### **Conclusion:**

Based on our understanding of the entity, environment and entity-wide COSO elements, we noted **no** potential risks.

Conclusions based on our evaluation of entity operations and entity-wide COSO elements are documented in the corresponding permanent file steps.

Testing Strategy.

The following procedures **are required** to be performed:

- **Review the applicable planning guide(s)**
- **Review and update the "Entity Operations" step in the permanent file**
- **Review and update the "Entity-Wide COSO Evaluation" step in the permanent file**

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- Review and update government profile information in EIS

In addition to required risk assessment procedures performed in other planning steps and general inquiry, observation and inspection as part of on-site fieldwork, **consider** additional procedures based on the government's size, complexity and anticipated risk and the auditor's experience. Additional procedures may include:

- Review recent Client Helpdesk questions submitted by the government. Any accounting and auditing questions and answers can be viewed in Helpdesk tab of EIS.
- Inquire with management, key staff or other personnel. For example, inquiry as to any significant events and changes occurring since the prior audit.
- Tour facilities.
- Review the entity's website.
- Obtain a list of facilities, departments and/or programs to better understand the nature and scope of activities.
- Review organization chart.
- Review list of resolutions passed during the period.
- Review list of contracts awarded or contract activity reports.
- Scan the entity's budget, annual report or comprehensive plan for discussion or indications of significant changes at the entity.
- Review applicable BARS manual or other documents referenced in the planning guide.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [6210](#) – Planning Financial Statement Audits**

**SAO Audit Policy [6230](#) – Understanding Internal Control and Assessing Control Risk**

**[Financial Statement Audits](#) Planning Guide**

Record of Work Done:

### **Procedures Performed to Update Understanding**

To gain an understanding of the government's operations, environment and entity-wide COSO elements, we performed the following procedures:

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- Reviewed planning guide (see: [Cities General Planning Guide](#)). There were three required accountability risks to assess in the Cities planning guide (EFT controls, financial condition, and Vision fraud risks (cash receipting and user access)) which we assessed in accountability planning procedures [\[Understanding Entity & Environment\]](#). There were no required financial risks to assess.
- General inquiries and discussion with the audit liaison Clerk/Treasurer, Steve Austin and noted no significant risks to bring to brainstorm.
- Gained an understanding of the government's operations and environment, including identification of the reporting entity, key operational information and significant accounting practices. Our understanding is documented in the Permanent File section of the audit. See [\[Entity Operations - BARS Cash Basis\]](#).
- Gained an understanding of internal control components (based on the COSO framework) for the government as a whole. Our understanding is documented in the Permanent File section of the audit. See [\[Entity-Wide COSO Evaluation\]](#).
- Identified and evaluated key software applications in the Permanent File section of the audit. See [\[Key Software Applications\]](#).
- Reviewed and updated government profile information in EIS.

We reviewed and updated the government profile information in EIS as follows:

*The City of Clarkston was incorporated in 1902 and currently serves approximately 7,220 citizens in Asotin County. The City provides an array of services including a sewer/sanitation system, parks and recreation services, general administration, street maintenance/improvement, fire prevention, ambulance services, public safety and animal control. An elected, seven-member Council with a separately elected Mayor governs the City. The Mayor oversees the City's daily operations as well as its approximately 60 full and part time employees. For the 2019 and 2020 fiscal years, the City operated on annual budgets of approximately \$12 million and \$14.7 million, respectively.*

### **Significant Events, Changes and Issues Noted:**

We confirmed with City Clerk/Treasurer on 9/8/21 that there were no significant events besides the COVID-19 pandemic during the audit period. In response to the COVID-19 pandemic, the City implemented a hiring freeze and no pay raises for City staff in FY2020. The City also received approximately \$324,225 in CRF funds in FY2020). We noted no significant risks to bring to the accountability brainstorm.

### **B.3.PRG - BARS Cash Basis Planning**

<i>Procedure Step:</i>	FS Audits Performed by Others
<i>Prepared By:</i>	TLJ, 9/19/2021
<i>Reviewed By:</i>	HVB, 10/13/2021

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Purpose/Conclusion.\*

**Purpose:**

To identify potential financial statement risks to consider in the planning conference brainstorm from audits performed by other auditors.

**Conclusion:**

We identified no financial statement audit work performed by an external auditor.

Testing Strategy.\*

Auditors are **required** to review the following for information relevant to financial statement audit objectives:

**AUDITS PERFORMED BY OTHERS**

**STEP 1: Identify** financial statement audits performed by external auditors.

If **part** of the audit was performed by an external auditor, auditors are required to perform the following in compliance with SAO Audit Policy 6240 for group audits.

- Use the **External Auditor Performs Part of the Audit** step available in TeamStore under Financial Statements | Rely on Work of Others (code time to "CPAR").
- For instances where there are multiple component audits, determine the significance of each audit
- This work should be started as soon as possible during planning to document the materiality and scope of the work and how it will impact the audit as a whole.

If **part** of the audit was performed by an external auditor **in lieu of an SAO audit** and it is **significant** to the primary government, auditors are required to perform the above steps in compliance with SAO Audit Policy 6240 **and the following steps** in compliance with SAO Audit Policy 3510 for use of external auditor's work.

- Create a new audit number and set up a separate TeamMate file for the CPA Audit Review.
- In the separate TM file, use the step **CPA Audit Review** in the Special Engagements folder in the Store.
- Complete this TeamMate file as soon as possible during planning the audit (code time to "CPAP") to document the materiality and scope of the work and how it will impact the audit as a whole.

*If the external audit report is not available during planning, once received auditors will need to consider whether any information in the report changes our planning decisions or would have an impact on our audit. Auditors should note this in the ROWD.*

**STEP 2: Review** identified audits for work and exceptions.

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Auditors should perform the following steps as they relate to the financial statement audit objectives.

Group audits (audit policy 6240)

- Complete steps 1 – 4 in the Rely on Work of Others folder.

Use of External Auditors Work (audit policy 3510)

- Complete steps 5-10 in the Rely on Work of Others folder for each significant component. *Note:* Follow the instructions in step 6 for the CPA Audit Report Review.
  - Obtain and review the TM file for the CPA Audit Review.
  - Review the CPA Review Checklist.
  - Review the Close-Out Letter for any concerns with the audit documentation or report.

**STEP 3: Document** scope and results of identified audits, identifying areas of risk or areas that can be leveraged.

Auditors should document the following as they relate to the financial statement audit objectives.

- Briefly document the scope and results of the other audit. (Such as fiscal year, opinion issued, findings, other recommendations, etc.)
- Document areas of risk to consider in the primary government financial statement audit based on review of the items in Step 2 (red flags).
- If applicable, document areas addressed by external auditors that potentially minimize risk for the financial statement audit based on review of the items in Step 2.

Guidance/Criteria.
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [3510](#) – Use of External Auditors’ Work for Local Government Audits**

**SAO Audit Policy [6240](#) – Group Audits**

**[Financial Statement Audits](#) Planning Guide**

**[Review Work of Others](#) Planning Guide**

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Record of Work Done.:

We noted the following information relevant to the financial statement audit:

**Financial Statement Audits:**

We identified no financial statement audit work performed by an external auditor.

**B.3.PRG - BARS Cash Basis Planning**

*Procedure Step:* Other Engagements & FAWF

*Prepared By:* TLJ, 9/19/2021

*Reviewed By:* HVB, 10/26/2021

Purpose/Conclusion.:

**Purpose:**

To identify potential financial statement risks to consider in the planning conference brainstorm from other engagements and the FAWF.

**Conclusion:**

Based on our review of other engagements and the FAWF, we noted **the following** potential risks to bring to brainstorm (see: Brainstorm Conference + Audit Plan):

**Financial Statement Preparation - Management Letter:** The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate and complete financial reporting. **Financial Statement Preparation:** There is a risk that the County did not have adequate controls in place to ensure that prior year recommendations were brought forward to the current year's financial statements.

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## Testing Strategy:

Auditors are **required** to perform the following procedures to identify information relevant to the financial statement audit:

### **FAWF**

Review Future audit work file (FAWF) items.

### **OTHER AUDITS, ENGAGEMENTS & STUDIES**

**STEP 1: Identify** other audits or engagements that may be relevant to financial audit objectives by:

- Checking the Entity Information Suite (EIS) "Reports" tab to identify prior SAO audits and investigations.
- Checking the Entity Information Suite (EIS) "Special Investigations" tab to identify prior and in-progress investigations.
- If applicable, inquiry with internal auditors or review results of internal audit work to identify any potential risks. However, reliance may not be placed on the work of internal auditors unless requirements of audit policy 3520 are followed
- Inquiry with management to identify any non-SAO audits, engagements or studies related to financial audit objectives

**STEP 2: Review** identified engagements that may relate to financial audit objectives. Auditors should specifically consider:

- Prior financial statement audit, including:
  - Reported issues.
  - Corrected and uncorrected misstatements - auditors should specifically evaluate whether any uncorrected misstatements will affect the current statements. If so, follow up with management to determine whether the misstatements have been corrected. Document this consideration and your conclusion in this step and document any uncorrected prior-year misstatement with a current effect in the Aggregation of Misstatements worksheet
  - Report modifications
  - Depending on experience with the entity, the auditor may consider reviewing the prior audit's material balance spreadsheet and/or other documentation to see the audit approach and key planning decisions from prior audits (ex: inherent and control risk assessments, etc.)
- If part of the audit is performed by other auditors refer to the **FS Audits Performed by Others** step in planning. This work should be started as soon as possible during planning in order to ensure sufficient coordination of work.
- If part of the audit is performed in another SAO audit, add the **Rely on Other SAO Work** step from the Rely on Work of Others folder in the Store in accordance with Audit Policy 6240. This work should be started as soon as possible during planning in order to ensure sufficient coordination of work.
- Scope and issues from our most recent accountability audits.

*Auditors should consider areas tested during the accountability or single audit that also relate to financial statement risks, such as revenue or expenditure testing that addresses relevant assertions, analysis of financial health, confirmation of grant awards and*



## City of Clarkston

*expenditures, testing cost allocation plans, self-insurance, extraordinary transactions, debt covenants, etc. NOTE: if work from our Office's concurrent accountability or single audit is relied on as substantive testing for the financial statement audit (that is, more than just risk assessment information in planning), it must be (1) properly referenced in the financial audit documentation, (2) address the financial statement period and risks, and (3) be completed prior to the financial statement report date.*

- Other non-SAO audits, attestation engagements, studies or investigations that directly relate to financial statement audit objectives. See Audit Policy 3530 related to grant or oversight agency work and Audit Policy 3520 for additional requirements for use of the work of internal auditors as substantive audit evidence. See Policy 6320 for requirements regarding coordination with outside parties for in-process investigations.

**STEP 3: Inquire** about the entity's asserted status of any relevant recommendations or findings. For prior audit findings and management letters, auditor should first check the Entity Reported Status in Tracker and then ask the entity whether the Tracker information is current and for further details as needed.

*If the Entity Reported Status is not completed or up-to-date, auditors should encourage the client to update it. However, it is not the auditor's responsibility to ensure it is filled out if the client does not take this opportunity.*

Further follow-up procedures to determine whether the issue was resolved may be performed at this point or incorporated into the audit plan.

Guidance/Criteria.
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [3410](#) – Follow Up on Previous Audits**

**SAO Audit Policy [6210](#) – Planning Financial Statement Audits**

**SAO Audit Policy [6320](#) - Consideration of Fraud and Noncompliance**

**[Review Work of Others](#) area guide**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

# City of Clarkston

## **BARS [3.10.2](#) Reporting Losses of Public Funds or Assets or Other Illegal Activity**

**RCW [43.09.185](#) Loss of Public Funds-Illegal Activity-Report to State Auditor's Office** - requires that all state agencies and local governments immediately notify SAO in the event of a known or suspected loss of public funds or other illegal activity

Record of Work Done:

### **Future Audit Work File items:**

Since the conclusion of the last audit, we monitored media reports, correspondence and observations from other audits and statewide activities for any potentially relevant information. We reviewed the FAWF [[FAWF Review](#)] for items relevant to the financial audit and noted no financial risks to bring to brainstorm.

### **Prior Financial Audit Exceptions and Uncorrected Misstatements:**

We reviewed the last financial statement audit and noted the following:

#### **Prior Misstatements:**

- We reviewed the aggregation of misstatements from prior years and noted no uncorrected financial misstatements.
- When reviewing the aggregation of misstatements from prior years we did not identify any patterns in prior year misstatements that pose as additional significant financial risks.

#### **Prior Financial Audit Exceptions:**

- We reviewed the audit issues identified by the previous audit as documented in [[Prior Audit Issue Review](#)]. For each issue, we checked the Entity Reported Status in Tracker and inquired with City Clerk/Treasurer Steve Austin regarding corrective action and the current status of the issue. We also evaluated the significance of potential effects in order to conclude on the extent of follow-up procedures needed.
- **Financial Statement Preparation - Management Letter:** The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate and complete financial reporting. **Financial Statement Preparation:** There is a risk that the City did not have adequate controls in place to ensure that prior year recommendations were brought forward to the current year's financial statements.

### **Group Audits:**

We identified **no** component auditors.

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## **Accountability and Single Audits:**

Our office performs regular accountability audits for compliance with state law and local policies, safeguarding of resources and controls over these matters. This work provides risk assessment information about the likelihood and magnitude of such risks as they may affect financial reporting. We reviewed the last accountability audit and noted **no** risk indicators.

The government **did not receive a single audit in the FY16-FY18 audit.**

## **Citizen Hotline:**

We checked EIS for any relevant citizen hotline referrals and noted **no** risk indicators.

## **Fraud / Loss Reports:**

Governments are required by law to notify our office of any known or suspected fraud, losses or illegal acts. We checked EIS for any relevant loss reports or investigations and noted **no** risk indicators.

## **Internal Audits:**

We identified **no** relevant internal audit function.

## **Other Engagements:**

We inquired with Clerk/Treasurer, Steve Austin on 9/13/21 regarding other audits, engagements, studies or investigations that may be relevant to the financial audit and noted **none**.

## **B.3.PRG - BARS Cash Basis Planning**

*Procedure Step:* Minutes

*Prepared By:* TLJ, 10/8/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion.
---------------------

## **Purpose:**

To identify potential financial statement risks to consider in the planning conference brainstorm by reviewing the minutes.

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## **Conclusion:**

Based on our review of minutes, we noted **no** potential financial statement risks.

## Testing Strategy:

Auditors are **required** to review minutes from the beginning of the period through the end of the audit.

Auditors should check with the AIC to determine if there are any known risks or items to look for. **Examples of risk indicators** and important information to note for a financial audit are as follows:

- Debt issuances, retirements, refundings, etc.
- Changes in revenue streams (ex: major new grant awards, etc.)
- Construction projects or other large contracts or commitments
- Changes to rates charged for services
- Changes to terms on major intergovernmental contracts
- Changes affecting payroll expectations (ex: COLAs, other pay raises, FTE levels, etc.)
- Creation of new entities or joint ventures
- Significant changes in operations
- Implementation of new accounting software or major upgrades
- Major litigation or concerns about compliance with laws, regulations, contracts, grants or bond covenants
- Quorums are present for budget and budget amendments approval, if necessary

**Note:** if minutes were reviewed in planning the Accountability Audit, make sure to either link to that review or copy and paste the relevant financial information to this step.

## Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [6210](#) – Planning Financial Statement Audits**

**[Financial Statement Audits Planning Guide](#)**

# City of Clarkston

**Reviewing Minutes** – SAO training for reviewing minutes

Record of Work Done.:

We reviewed the minutes from 1/7/2019 through 7/26/2021 (see: Brainstorm Conference + Audit Plan) and noted no issues to bring to brainstorm.

## **B.3.PR.G - BARS Cash Basis Planning**

*Procedure Step:* Material Compliance Requirements

*Prepared By:* TLJ, 10/8/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion.:

### **Purpose:**

To identify compliance requirements or violations that may have a direct and material effect on financial statements.

### **Conclusion:**

Based on our understanding of the entity's legal framework and planning procedures, we noted **no** compliance requirements or potential violations that may have a direct and material financial statement effect.

Testing Strategy.:

### **BACKGROUND:**

Auditors are responsible to obtain sufficient appropriate evidence regarding material amounts and disclosures in the financial statements that are directly affected by the requirements of laws, regulations, contracts or grant agreements. Auditors are also required to perform certain general procedures to review for compliance violations.

## City of Clarkston

Identified compliance requirements and violations will be assessed at the planning conference brainstorm to make a final determination of whether it is direct and material to the financial statements and whether any further audit procedures are necessary.

### **REQUIRED PROCEDURES:**

To identify compliance requirements that may have a direct and material effect on financial statement, auditors are **required** to perform the following procedures:

**Step 1:** Obtain a general understanding of legal and regulatory framework and identify requirements of laws, regulations, contracts or grant agreements that have a significant and direct effect on determining financial statement amounts. **At minimum**, auditors should perform the following procedures:

- Consider information from the review of the planning guide
- Update the Entity Operations with any special compliance requirements

*See Policy/Standards tab for examples of laws, regulations, contracts or grants that may have a significant and direct effect on financial statements. For this step, auditors should identify all potential requirements; at the brainstorm, a final decision will be made on compliance requirements that are material and require further audit procedures to verify compliance.*

**Step 2:** Identify any licensing, regulatory, contracting or granting oversight agencies with the ability to impose material penalties or otherwise play a fundamental role in the entity's operations or ability to continue.

*The planning guide will identify any licensing or regulatory agencies for the government type and give procedures for contacting the agency (normally via the specialist or program manager). Auditors should also consider whether any contracts or grants are so significant to the entity that the contracting or granting agency plays a fundamental role in the entity's operations or ability to continue – for example, if entity operations are entirely or almost entirely dependent on a single grant or contract.*

**Step 3:** Review for indications of potential compliance violations and evaluate the financial statement effect of any potential violations. **At minimum**, auditors should perform the following procedures:

- For each oversight agency identified, inquire with management and either review relevant correspondence from these agencies or else contact these agencies directly to determine whether the oversight agency has any significant concerns about compliance or is planning any significant remedial actions against the entity.
- Consider results of inquiry about compliance violations and risks as documented in the Risk Assessment Inquiry step.
- Consider results of the most recent accountability, single audit or other engagements as documented in the Other Engagements & FAWF step
- Start the legal matters inquiry as documented in the Litigation, Claims & Assessments step.

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Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

Examples of violations of laws, contracts or grants that may have a direct and material effect on financial statements include:

- *Debt covenants for revenue bonds* – violations are required to be disclosed.
- *Unallowable use of bond or special levy proceeds* – actual use of bond or special levy proceeds that is not in accordance with bond issuance documents or voter-approved levy purpose may require disclosure and/or reclassification of expenditures.
- *Unallowable investments* – illegal investments are required to be disclosed.
- *Unallowable use of restricted funds* – unallowable uses of restricted funds or questioned costs may require disclosure or may affect classification of transactions and balances.
- *Unallowable shifting of restricted funds* – unallowable cost allocations, transfers, interfund loans and/or other interfund transactions may affect classification of transactions and balances.
- *Exceeding statutory authority* – if a project or program is outside an entity's statutory authority to perform or if an otherwise allowable activity was done outside the entity's boundaries or jurisdiction, disclosure may be required.
- *Requirements on reports used to determine entitlement or grant revenues* – violations may require disclosure or affect classification of the revenues received.
- *Contracts or grant agreements with significant financial penalties or cost recoveries for non-compliance* – violations may require disclosure.

**SAO Audit Policy [6210](#) – Planning Financial Statement Audits**

**SAO Audit Policy [6320](#) - Consideration of Fraud, Noncompliance and Abuse**

**[Financial Statement Audits](#) Planning Guide**

Record of Work Done:

### **Compliance Requirements:**

We gained a general understanding of the government's legal and regulatory framework and considered whether any significant requirements had

## City of Clarkston

a direct effect on financial statement amounts or disclosures through:

- Review of the planning guide, see [\[FS Understanding Entity & Environment\]](#)
- Updating our understanding of special compliance requirements in the permanent file at [\[Entity Operations - BARS Cash Basis\]](#)

### **Oversight Agencies:**

We identified **no** licensing, regulatory, contracting or granting agencies with the ability to impose potentially material penalties or otherwise play a fundamental role in the entity's operations or ability to continue.

### **Compliance Violations:**

We reviewed for potential violations by performing the following procedures:

- We inquired about potential noncompliance and risks of noncompliance as documented in the Risk Assessment Inquiry step. See: [FS Risk Assessment Inquiry](#)
- We considered results of the most recent accountability audit in the Other Engagements & FAWF step. [\[FS Other Engagements & FAWF\]](#)
- We started the legal matters inquiry as documented in the Litigation, Claims & Assessments step, see [\[Litigation, Claims & Assessments\]](#)

We will remain alert throughout the audit for compliance violations that may have a financial statement effect. In the FS Summary & Report step at the conclusion of the audit, we will re-consider any work done on other SAO engagements for any compliance violations with a financial statement effect.

### **B.3.PRG - BARS Cash Basis Planning**

*Procedure Step:* Planning Analytical Procedures

*Prepared By:* TLJ, 10/14/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion:
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### **Purpose:**

To identify potential financial statement risks to consider in the planning conference brainstorm by performing planning analytical procedures.



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## **Conclusion:**

Based on our planning analytical procedures, we noted **the following** potential risks which we will bring to brainstorm here: [Brainstorm Conference](#)  
+ [Audit Plan](#)

- **Financial Statement Preparation:** There is risk the City does not have adequate internal controls in place over financial statement preparation to ensure statements and notes are presented fairly and accurately.

## Testing Strategy:

The following planning analytical procedures are **required**:

- Trend financial information to identify (a) obvious errors, omissions or inconsistencies, (b) significant changes and (c) unusual or unexpected line items, balances or relationships. Trends should include:
  - LGCS Revenue and Expenditure report. *For cities and counties, auditors should consider starting by fund type and 2 digit (top level) BARS code. For special purpose districts, auditors should consider starting by fund and 3 digit BARS code.*
  - LGCS Expenditure Object Trend. *For cities and counties, auditors should consider starting by fund type. For special purpose districts, auditors should consider starting by fund.*

*Auditors should consider general expectations of types and level of activity and relationships between line items. Auditors should follow-up if the nature or content of a fund or line item is unknown and on unexpected balances, trends or relationships or obvious errors.*

- Scan note disclosures for (a) obvious errors, omissions or inconsistencies, (b) disclosure of items that appear to be inherently high risk, and (c) unusual or unexpected disclosures.

*Note: some auditors prefer to perform a full financial statement review, including tick-and-tie procedures during planning. If this is the case, the procedures may be referred to in this step along with any red flags noted. However, details of these substantive procedures should be documented in the Review Presentation & Disclosure folder where they are required.*

- Start or complete the Cash Flow Reconciliation.

*Note: the reconciliation is a substantive step and must be documented in the Cash Flow Reconciliation folder in the substantive testing section. However, by starting the reconciliation at this point, auditors will have information on reconciling items sufficient to consider additional risks for the plan.*

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*Auditors should consider general expectations regarding the types and amount of reconciling items and different bank accounts, which may lead to the auditor additional risks.*

Auditors should also **consider** additional procedures based on risk, such as:

- Reviewing the LGCS financial condition report
- Reviewing detailed trends in LGCS for specific funds, accounts or objects to determine primary causes of variances
- Comparing budget-to-actual for the current period
- Performing CAATS tests

*When analytical procedures involve CAATS, the following documentation guidelines should be followed:*

- *Databases should not be included in TeamMate. Only relevant query results should be included in audit documentation. This can be done with imported report documents, copied query excerpts, narrative description of queries and results, or other means.*
- *When used as audit evidence, auditors should document where and how they obtained data and how they verified or were reasonably assured of the completeness and accuracy of the data. FAP data is not validated in detail by Team IT Audit.*

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

Planning AP differs from AP used as a substantive test in that the purpose of the procedure is discovery rather than substantiation. Standards do not require auditors to document expectations for planning analytical procedures – only for substantive analytical procedures. Although expectations of some sort are necessary for effective AP, expectations used for planning AP are often very general and do not need to be documented. Expectations may be derived from events or changes in activity noted during other planning steps, budgets, prior year figures, figures for comparable entities, or general understanding of relationships between activities and financial figures.

### **SAO Audit Policy [6210](#) – Planning Financial Statement Audits**

#### **[Financial Statement Audits](#) Planning Guide**

Record of Work Done:

### **Trend Analysis**

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We performed the following trend analysis to look for unusual or unexpected line items, amounts or relationships:

- LGCS Revenue and Expenditure report. See [[Financial Trend.xlsx](#)]  
From our review we noted no financial risks but we did note one accountability risk that we have addressed here: [Accountability Planning Analytical Procedures](#).
- LGCS Expenditure Object Trend. See [[5-Year Expenditure Trend](#)]  
From our review we noted no financial risks but we did note one accountability risk that we have addressed here: [Accountability Planning Analytical Procedures](#)

## **Scan of Note Disclosures**

For purposes of planning the audit and assessing risks, we scanned note disclosures for (a) obvious errors, omissions or inconsistencies, (b) disclosure of items that appear to be inherently high risk, and (c) unusual or unexpected disclosures.

We scanned the Notes to Financial Statements and noted **the following** errors:

- **2019:**
  - City incorrectly labeled the correct year on the header of the notes to the financial statements
  - Headers listing the MCAG of the city that does not follow BARS
  - City used incorrect OPEB Note Disclosure
  - City did not disclose its unemployment self insurance arrangement in the Risk Management Note
  - City did not present a subsequent event Note disclosing COVID-19 as a subsequent event
- **2020:**
  - Headers listing the MCAG of the city that does not follow BARS
  - City used incorrect OPEB Note Disclosure
  - City did not disclose its unemployment self insurance arrangement in the Risk Management Note

There is risk the City does not have adequate internal controls in place over financial statement preparation to ensure statements and notes are presented fairly and accurately.

Further substantive testing on note disclosures will be documented in the Review Statements & Notes | Statements & Notes step. See [[Statements & Notes](#)]

## **Cash Flow Reconciliation**

## City of Clarkston

We started the Cash Flow Reconciliation at [\[Cash Flow Reconciliation\]](#). Based on work completed to this point, we evaluated the size and nature of bank accounts, flows, variances, and reconciling items for risk indicators.

### **B.3.PRG - BARS Cash Basis Planning**

***Procedure Step:*** Risk Assessment Inquiry

***Prepared By:*** TLJ, 10/20/2021

***Reviewed By:*** HVB, 10/21/2021

Purpose/Conclusion.:

**Purpose:**

To identify potential financial statement risks to consider in the planning conference brainstorm from inquiry with management.

**Conclusion:**

Based on our inquiry, we noted **no** potential risks of misstatement (including risks related to misappropriation of assets and fraudulent financial reporting).

Testing Strategy.:

Auditors are **required** to use the attached workpaper to inquire with the following key personnel, at minimum:

- Appropriate members of management with overall responsibility for financial and operational matters.

*Generally, this will be the chief executive officer (e.g. city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer). But it may be or include deputy officers or members of the governing body depending on the structure of responsibilities and oversight or due to potential conflicts of interest or lack of segregation of duties. Auditors need to use professional judgment to determine the appropriate persons to communicate with depending on the circumstances.*

- A member of the governing body or audit committee, as applicable.
- Internal audit personnel, if applicable.

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Also **consider** inquires of others.

*For example, the human resource manager, key accounting staff, facility manager, prosecuting attorney or managers responsible for operation of significant components or functions of the government. Also, consider talking with employees who may be able to corroborate information from management or others.*

Inquiry should be performed using the following **guidelines**:

- Inquiry should be done in person whenever possible, rather than by phone or email.
- Due to the potential sensitivity of certain questions, auditors should be careful to ask them in a professional manner and be prepared to explain that professional standards require us to ask such questions on every financial statement audit.
- The inquiry should be a conversation - auditors should be prepared to explain terms, rephrase questions in their own words and ask follow-up questions.

*Auditors should be prepared to prompt the auditee with follow-up questions regarding potential risks described in the planning guide, identified in prior audits or identified in other planning steps.*

- The workpaper describes the minimum extent of the inquiry as a whole, although not every question will be applicable to every person the auditor inquires with. Also, auditors should consider additional questions about identified risks or controls as necessary.

Document response details in the attachment and a summary of procedures, results and conclusions about audit-relevant risks in the step.

When performing inquiries and evaluating responses, auditors should specifically consider:

- Whether responses generally agree with each other, and what any significant differences between the responses may imply (other than normal expected differences in opinion or perspective among professionals).
- Whether responses generally agree with other planning information and risk assessment conclusions of the audit, and what any significant differences may imply.
- Whether any responses indicate potential management override of controls or fraud, or any new risks that might need specific follow-up in planning.
- Whether any management communications, assessments or action taken in response to risks that were discussed in the inquiry might represent useful documentation or evidence for audit work.
- Whether management has planned or taken appropriate action for risks they have identified. And if not, the reasons for not doing so (ex: insufficient resources or other limitations, lack of consensus within the government, operational difficulties, etc).

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Guidance/Criteria:

## **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [6320](#) - Consideration of Fraud, Noncompliance and Abuse**

**[Financial Statement Audits](#) Planning Guide**

Record of Work Done:

Governments are required by state law (RCW 43.09.185) to report to our office any known or suspected loss of public funds or assets or other illegal acts. Citizens and employees may also contact our Office's citizen hotline to report known or suspected fraud or abuse. We reviewed loss reporting and citizen hotlines as documented in the *Other Engagements & FAWF* step. We also made general inquiries and observations throughout the planning process.

In addition to these steps, we performed formal inquiries with key personnel regarding the government's understanding and assertions about their risks and responses as follows:

### **Determining Extent of Formal Inquiries:**

Based on our understanding of the government and other planning procedures, we considered who might and determined that formal risk assessment inquiries would be conducted with the following people:

- [Steve Austin, Clerk/Treasurer - \(Risk Assessment Inquiry Questions\)](#)
- [Monika Lawrence, Mayor - \(Risk Assessment Inquiry Questions\)](#)
- [Skate Pierce, City Council Member & Mayor Pro Tem - \(Risk Assessment Inquiry Questions\)](#)

-

### **Results of Inquiries:**

We evaluated responses individually, compared to each other, and compared to results of other planning steps in order to conclude on risks.

We conclude:

- [Responses generally agree with each other.](#)
- [Responses generally agree with other planning information and risk assessment conclusions of the audit.](#)

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- Responses do not indicate potential management override of controls or fraud.
- Management has planned or taken appropriate action for risks they have identified.

### **B.3.PRG - BARS Cash Basis Planning**

*Procedure Step:* FS Brainstorm  
*Prepared By:* TLJ, 10/27/2021  
*Reviewed By:* HVB, 10/27/2021

Purpose/Conclusion:

#### **Purpose:**

To discuss and evaluate financial statement risks among key members of the audit team in order to develop the overall audit strategy and audit plan.

#### **Conclusion:**

Brainstorming conclusions are reflected in the initial audit plan. During the course of our brainstorm, we noted **no** new risks that were included in the plan.

Testing Strategy:

Auditors are **required** to perform all the following steps:

#### **Brainstorming Discussion (Planning Conference)**

Hold a planning conference brainstorm with key members of the audit team. To allow the brainstorming process to effectively evaluate and finalize scope decisions and design further audit procedures:

- All planning steps should be completed and reviewed prior to brainstorm.
- The AIC should be prepared with a proposed Material Balance Spreadsheet.
- The planning conference brainstorm should take place in person or on the phone.
- Professional judgment should be used in determining which audit team members should be included in the discussion. The brainstorm should include, at minimum, the key members of the audit team. Normally, this would be the AIC, Supervisor and Audit

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Manager. This could also include other members of the audit team or specialists. Managers should consider the experience of the AIC and Supervisor and the size and risk of the audit in determining the extent of the manager's involvement in the brainstorming discussion.

At a minimum the discussion is **required** to include the following topics:

### Understanding of Entity:

Consider how our understanding of the entity, its environment and its operations might affect and inform our financial statement audit. What types of risks are most important to address? What areas are most susceptible to misstatement due to error, fraud or noncompliance?

### Application of Financial Reporting Framework to Facts and Circumstances:

How should significant activities and transactions be accounted for? Do all significant activities and transactions appear to be appropriately reported and/or disclosed in the financial statements? Do financial statements fairly present the government's position and results of operations?

### Accounting Estimates:

Do any estimates have a high inherent risk based on Policy 6340 considerations? Does management use specialists, conventional models and retrospective reviews in their development of estimates? Any changes that might give rise to new or revised estimates?

### Related Party Relationships and Transactions:

What related parties have been identified? Were there any uncommon transactions with related parties during the period? Are any services performed for or by related parties? If so, are services within the normal course of business for both entities and charged at normal rates?

### Unusual accounting policies or procedures:

Does the entity have any unusual accounting policies or procedures that indicate a higher risk of material misstatement? Also, would these accounting policies or procedures result in a proper application of BARS manual to major financial events or activities identified in planning?

### Results of Planning Steps:

What are the results of planning procedures? Does planning indicate a low, moderate or high risk audit?

### Red Flags:

Discuss each red flag identified by planning and consider the need for further audit procedures.



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### Results of Analytical Procedures:

Were any risk indicators or unexpected relationships noted in planning analytical procedures? Do any unusual or unexpected relationships identified indicated risks of material misstatement due to fraud?

### Other Information and Experience:

Did any major changes occur? Were any unusual events or transactions identified? Does any other information or experience with the entity indicate risks of material misstatement due to fraud?

### Risk of Financial Statements to Material Misstatement:

What balances or disclosures are most susceptible to misstatement? What are the most likely places for the biggest misstatements? Are there any risks of misclassification or omission?

### Risk of Management Override of Controls:

Are there any systems or areas susceptible to management override of controls? Are there any indications of manipulation of financial measures or practices that might lead to fraudulent financial reporting? Management override of controls could include: (a) not responding when controls indicate a potential problem, (b) recording fictitious journal entries, (c) intentionally biasing assumptions and judgments used for estimating account balances, or (d) altering records related to significant and unusual transactions. Specifically consider results of the Risk Assessment Inquiry step, Entity Operations and Overall COSO Evaluation steps, the journal entry process and the extent of monitoring and transparency of financial data.

### Risk of Material Misstatement due to Error:

What balances or disclosures are most susceptible to misstatement due to error whether due to red flags or inherent risks? Do planning procedures indicate a lack of knowledge, misunderstanding, or apparent errors in any area?

### Risk of Material Misstatement due to Fraud:

How and where are the financial statements most susceptible to misstatement due to fraud? How might management perpetrate and conceal fraudulent financial reporting? How might assets be misappropriated? Are there any external and internal risk factors affecting the entity that might (a) create incentives/pressures for management and others to intentionally misstate the financial statements, (b) provide the opportunity for fraudulent reporting or material misappropriations or misuse of resources, and (c) indicate a culture or environment that enables management to rationalize fraudulent reporting or material misappropriation or misuse of resources?

### Risk of Material Misstatement due to Noncompliance with Laws, Regulations, Contracts or Grants:

Were there any risks of material misstatement due to noncompliance with laws, regulations, contracts or grants identified that

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require further audit procedures? Are there any risks or indications that noncompliance is intentional or could lead to fraudulent financial reporting?

### Responses to Audit Risks:

What is the best way to respond to identified risks of misstatement? What is the best way to respond to risks of management override and misstatement due to fraud or noncompliance? Consider responses at the overall financial statement level, at the balance and assertion level, and necessary resources.

### Materiality and Planned Further Audit Procedures:

What decisions should be made regarding preliminary materiality threshold, material balances, relevant assertions, inherent risk and tolerable misstatement allocations? Should internal controls be relied upon to reduce substantive testing for certain balances and assertions? Also, what substantive testing should be planned in light of these decisions?

### Significant Accounting Systems:

Do overall COSO elements or significant accounting systems represent increased or decreased risk of material misstatement? Specifically consider any significant changes to COSO elements and accounting systems, such as new key personnel or implementation of new software systems.

### Importance of maintaining professional skepticism:

Supervisors should emphasize the need to maintain professional skepticism throughout the audit and highlight any areas of potential concern or where special care or consideration may be needed.

Discussion among the engagement team about risks of material misstatement should continue throughout the audit. Auditors do not need to document every discussion, but should consider documenting any additional key brainstorming discussions, particularly if there were major re-evaluations or updates to the audit plan.

### **Follow up with other members of audit team:**

Information and decisions discussed may be relevant to work performed by other members of the engagement team not involved in the discussion, specialists or other auditors performing a portion of the audit. The AIC should communicate relevant matters as necessary with auditors not involved in the brainstorming discussion.

### **Information to be considered in other SAO audits:**

Appropriately communicate information or risks identified in the planning that may affect or be better addressed with a different type of engagement, a future engagement, an engagement of another local government or state agency, or by other parties such as regulatory bodies or law enforcement.

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Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [6210](#) – Planning Financial Statement Audits**

**[Financial Statement Audits](#) Planning Guide**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

Standards require special consideration of certain types of balances with:

- **Investments valued using an equity or income approach** – see [GASB Codification section I50](#) for accounting requirements and [AU-C 501.04-05](#) for audit requirements.
- **Derivatives** – see [GASB Codification section D40](#) for accounting requirements and [AU-C 501.06-10](#) for audit requirements
- **Inventory** – see [AU-C 501.11-15](#) for audit requirements
- **Segment reporting** – see [GASB Codification section 2500](#) for accounting requirements and [AU-C 501.25](#) for audit requirements
- **Revenue recognition** – see [AU-C 240.26 and .46](#) for audit requirements
- **Receivables** – see [AU-C 330.19-.20](#) for audit requirements

Record of Work Done:

### **Brainstorm**

Date: 10/25/2021

How: discussion among key members of the engagement team via Microsoft Teams Meeting

Attendees:

- AM Alisha Shaw
- AAM Heide Brillantes
- AIC Travis Jones

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Subject Matter Discussed (as detailed in testing strategy):

- Our understanding of the entity, including:
  - Application of financial reporting framework to the government's facts and circumstances
  - **Financial Statement Preparation:** Risk that our financial statement finding recommendations from the prior audit were not implemented. See Audit Plan Step [FS Audit Plan], where we have addressed this as a significant risk.
  - Accounting estimates
  - Related party relationships and transactions
  - Unusual accounting policies or procedures
- Results of planning steps, including:
  - All red flags identified in other planning steps
  - Results of analytical procedures
  - Other information and experience with the entity
- Risk of material misstatement, including:
  - Risk of management override of controls
  - Risk of misstatement due to error
  - Risk of misstatement due to fraud
  - Risk of misstatement due to noncompliance with laws, regulations, contracts or grants
- Audit responses to risks, including:
  - Materiality, material balances, relevant assertions and planned further audit procedures
  - Significant risks
  - Significant accounting systems
  - Importance of maintaining a questioning mind and exercising professional skepticism

### **Decisions Reached:**

Overall and assertion-level risks and responses are documented in the FS Audit Plan. As reflected in our plan, we specifically noted:

- No derivatives are reported
- No investment securities are reported using an equity or income approach to determine fair value
- No identified impairment losses or permanent declines in fair value of investments
- No inventory is reported (since government is reporting on a cash basis)
- No segment reporting (since this is not applicable to the BARS regulatory framework)
- No red flags or significant pressures or incentives to intentionally misstate revenues. We therefore do not consider improper revenue recognition as a risk of material misstatement due to fraud.
- Confirmations are not needed for accounts receivable arising from charges for goods or services because no receivables are reported (since government is reporting on a cash basis).

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## B.3.PRG - BARS Cash Basis Planning

*Procedure Step:* FS Audit Plan  
*Prepared By:* TLJ, 10/27/2021  
*Reviewed By:* HVB, 10/27/2021

Purpose/Conclusion:

**Purpose:**

To finalize our overall audit strategy and audit plan to reduce audit risk to an appropriately low level.

**Conclusion:**

See documented plan in the Record of Work Done.

Testing Strategy:

An overall audit strategy and audit plan template has been developed in the Record of Work Done for a local government BARS Cash Basis financial statement audit. Make edits as necessary to complete the template and modify it for the specific circumstances of the audit.

**CHANGES TO AUDIT PLAN:**

Document both the original plan and any changes made during the course of the audit. Changes to the original plan may be documented in the "Changes to Audit Plan" step or in the Record of Work Done (ex: using a different font color for changes or listing changes in a separate section at the end of the plan). For changes that result in a new engagement letter or addendum in accordance with policy 2140 and 1220, refer to the Engagement Letter step in Teammate.

**Overall Audit Strategy**

Modify as necessary for applicable financial statements and special planning approaches (such as interim work or audits with multiple major components or locations).

**Audit Risk at the Overall Financial Statement Level**

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Assess risk at the overall financial statement level. Planning should reflect the overall risk assessment in staffing, supervision, audit budget and the overall level of substantive testing.

*When determining overall risk, auditors should consider the number and nature of red flags identified by planning. Auditors should also consider any risks that could potentially affect many balances and assertions, such as:*

- *Issues with overall COSO elements, such as the control environment or information systems.*
- *Issues with the financial statement preparation process*
- *Major financial distress*

### **Preliminary Quantitative Materiality**

While the quantitative threshold is a starting point, auditors will consider qualitative factors when applying materiality to planning decisions. SAO's rule of thumb for the quantitative threshold is 10% of total expenditures.

### **Tolerable Misstatement**

Tolerable misstatement (also known as performance materiality) is a method of applying materiality to individual accounts with an allowance for undetected errors. It is used to make decisions about substantive testing (such as the extent of testing) and to evaluate initial test results to determine if further or different testing is needed. SAO's rule of thumb for BARS Cash Basis presentations is 75% of materiality.

### **Aggregation of Misstatements Floor**

The "floor" to the aggregation of misstatements is the threshold below which misstatements are considered trivial and do not need to be accumulated or communicated to management. The floor should be set to an appropriately low level such that un-accumulated misstatements would never reasonably be material, either individually or when aggregated with other misstatements, and considering the possibility of additional undetected misstatements.

The default floor is 0.002 multiplied by the materiality threshold, rounded up to the nearest \$1,000. Auditors may use professional judgment to adjust the default floor, as documented on the Aggregation of Misstatements worksheet.

### **Balances, Assertions, Systems and Risk Assessments for the Cash Flow Reconciliation**

Modify the record of work done as needed to describe affected balances, relevant assertions, the significant system and IR, CR and RMM assessments related to the planned cash flow reconciliation test.

*If the team determines that it will likely be impractical to perform a cash flow reconciliation with sufficient precision due to the entity's records or other reasons, the audit plan will need to be modified accordingly. Contact TAS for assistance in making modifications to the plan template.*

### **Balances, Assertions, Systems and Risk Assessments for Additional Risks**

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Based on planning and brainstorming, identify any additional risks requiring further audit procedures that are not covered by the planned cash flow reconciliation. Management override of controls is considered an additional risk for every audit. List and describe other additional risks in the record of work done.

For each identified additional risk (risks not covered by the cash flow reconciliation), auditors must:

- Describe the risk
- List or describe the financial statement balance(s) affected
- List the relevant assertion(s)
- Assess the inherent risk (IR) for the relevant assertion(s) and balance(s)
- List the significant accounting system(s) related to the relevant assertion(s) and balance(s).
- Gain an understanding of internal controls for significant accounting systems and assess control risk (CR).
- Assess the risk of material misstatement (RMM) for the relevant assertion(s) and balance(s).

*Assessments should be identified by assertion, if different. For example, IR and RMM may be assessed at MAX and MOD respectively for the existence assertion, but LOW and LOW for the rights & obligations assertion. **Examples** of potential risks that would NOT be covered by the cash flow reconciliation include the following. Testing strategies are available in the Store for each of the following examples of potential risks.*

### Misstated reconciling items (existence / completeness)

- *Invalid / missing reconciling items in the bank or County Treasurer reconciliation or in clearing funds.*
- *Inconsistent treatment of expenditures occurring during the open period.*
- *Having an unreasonably long open period.*
- *Inappropriate netting of revenues and expenses. Note: this may either cover up or cause invalid / missing reconciling items.*

### Unreported accounts or receipts (completeness)

- *Misappropriation of locally receipted revenues before the revenues are deposited.*
- *Misappropriated accounts receivable, which may be shown as current, past due or adjusted/written off to \$0 in the accounting records. Unreported bank accounts (including clearing or transmittal accounts)*
- *Unreported imprest or petty cash funds.*

Misstating the ownership of funds (rights & obligations) - *this risk is primarily related to activity with joint ventures, related parties or fiduciary funds*

- *Incorrectly receipting and accounting for funds of another entity.*
- *Having another entity receipt and account for funds that actually belong to the government.*

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### Unallowable shifting of restricted funds (rights & obligations)

- *Cost-allocations improperly shift restricted funds.*
- *Unallowable transfers, interfund loans or interfund transactions.*
- *Unallowable charges to restricted funds or questioned costs for grant funds.*

### Noncompliance with a financial statement effect (rights & obligations) - see the "Material Compliance Requirements" step for details.

- *Exceeding statutory authority (ex: project / program outside jurisdiction or authority).*
- *Noncompliance with grant or entitlement requirements leading to questioned costs.*
- *Noncompliance with bond covenants or special levy requirements.*
- *Unallowable investments.*
- *Noncompliance with expenditure audit, certification, and/or governing body approval requirements.*

### Invalid payments (existence / rights & obligations)

- *Erroneous payments (ex: duplicate or accidental over-pay).*
- *Unallowable payments (ex: gift of public funds).*
- *Fraudulent payments.*

### Incorrect calculation of amounts (valuation)

- *Government appears to be accounting for certain revenues or expenditures on the accrual basis of accounting rather than the cash basis. Note: this condition should show up in the reconciling items.*
- *Valuation of liabilities reported on the Schedule of Liabilities.*
- *Investment valuation (FMV or book value) does not match the notes*

### Classification errors (classification)

- *Amounts are misclassified between funds or accounts.*
- *Funds are misclassified as the wrong type*
- *Funds are inaccurately combined*

### Agreement with Accounting Records (all assertions) - covered in the "Review Statements & Notes" step, but auditors may plan for more or less work on this objective.

- *Missing or extra funds (intentional or unintentional errors)*
- *Missing or extra activity (intentional or unintentional errors or duplication)*

### Presentation & disclosure issues - covered in the "Implementation of BARS Changes," "Review Statements & Notes," and "Review



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*Schedules" steps, but auditors may plan for more or less work on this objective.*

- *Statements / notes do not foot or articulate.*
- *Statements / notes are not in the prescribed BARS format.*
- *Funds are inaccurately described*
- *Major disclosure issues, including missing, inaccurate, unclear or misleading information.*
- *Schedule of Liabilities or Schedule of Expenditures of Federal Awards are inaccurately presented.*

*NOTE: we would consider any additional risks identified to be "significant risks" that require special audit consideration.*

### Relevant Assertions

For each additional risk, describe what could go wrong. Then identify the relevant assertion, which should match the description of what could go wrong. Assertions are representations by management embodied in the financial statements. Relevant assertions are those that, based on auditor judgment and planning procedures, are applicable and present a consequential risk of misstatement. Multiple assertions may be identified, which may reflect either multiple risks or different ways in which a risk may affect balances. Assertions are defined as follows:

- Existence / Occurrence - Amounts reported exist as of the financial statement date and reported transactions and events occurred during the fiscal year.
- Completeness - All amounts that should have been recorded for the fiscal year have been recorded.
- Rights & Obligations - Amounts reported properly represent the entity's legal rights, authority, responsibilities and obligations.
- Valuation - Amounts reported are valued or calculated properly.
- Classification - Amounts are recorded in the proper fund and line item.

### Inherent Risk (IR)

Inherent risk is the susceptibility of an assertion to misstatement, assuming there are no related controls. In other words, what is the likelihood of misstatements that are more than inconsequential if no key controls were in place? Auditors should consider both the likelihood of accidental misstatements as well as the risk of intentional misstatements if there are inherent motivations to misstate.

### Significant Accounting Systems (including outside service organizations)

Identify the significant accounting system(s) that contains key controls over relevant assertions for affected balances. Significant accounting systems identified should match the internal control systems documented in the permanent file folder.

*When significant accounting systems or key controls are performed by outside service organizations, auditors still must gain and understanding of the controls. See Audit Policy 6230 for more information.*

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## Control Risk (CR)

For each significant accounting system identified, document an understanding of controls in the permanent file folder and assess of control risk.

## Risk of Material Misstatement (RMM)

For each material balance, document your assessment of the risk of material misstatement. This is a combined assessment of inherent and control risk based on auditor's judgment. If inherent and control risk are assessed differently, it is a matter of professional judgment as to whether the combined assessment is moderate or if one factor outweighs the other.

## **Develop Initial Substantive Testing Strategies**

Develop testing strategies to address identified risks. A cash flow reconciliation step and template, as well as example testing strategies to consider for common additional risks, are available in the SAO Store.

## **Reliance on Other Audits (Group Audits)**

If the audit will rely on work performed by **external auditors** (Policy 3510 and 6240) or on **other SAO audits** (6240), describe the planned nature and extent of reliance.

*This work needs to be completed, evaluated and the results incorporated into this audit prior to issuance of the report. See the "FS Summary & Report" step for details.*

## **Internal Auditors**

If work of internal auditors is expected to be used as audit evidence (Policy 3520), describe the planned nature and extent of reliance.

## **Audit Staffing**

Identify the AIC, AAM and other planned members of the audit team in the Team tab of the Profile, considering the knowledge, skill, and ability of personnel assigned significant engagement responsibilities and the appropriate level of supervision.

Determine whether assigned staff are independent with respect to the entity under audit and identify any threats to independence along with planned safeguards (Policy 3110). Also consider whether assigned staff collectively possesses adequate professional competence for the tasks required (Policy 3140). If the audit will require the use of a specialist with expertise in an area other than accounting or auditing (Policy 3230), describe the planned nature and extent of reliance.

## **Budget**

Develop a detailed audit budget, considering risks, staffing and other circumstances. Initial budget information can be obtained from TABS. Inform your supervisor and audit manager if TABS is not correct so that changes can be requested.

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Guidance/Criteria:

## **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [6210](#) – Planning Financial Statement Audits**

**SAO Audit Policy [6220](#) - Materiality**

**SAO Audit Policy [6230](#) - Understanding Internal Control and Assessing Control Risk**

**[Financial Statement Audits Planning Guide](#)**

Record of Work Done:

## **OVERALL AUDIT STRATEGY**

*Scope & Reporting Objectives* - Engagement scope and attributes are documented in the TeamMate Profile and have been updated in TABS for this audit number.

The objectives of our audit are based on the reports we plan to issue. We have planned the audit to gain sufficient appropriate audit evidence in support of the reports planned to be issued:

- Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting in Accordance with Government Auditing Standards
- Independent Auditor's Report on Financial Statements

We will obtain reasonable assurance that the financial statements are free of material misstatement - whether due to error, fraud or noncompliance with laws, regulations, contracts, or grants. We will report the following conditions discovered during the course of our audit:

- Significant deficiencies or material weaknesses in internal controls over financial reporting
- Material instances of fraud or noncompliance with laws, regulations, contracts or grant agreements
- Instances of fraud or noncompliance with laws or regulations that warrant the attention of those charged with governance
- Material abuse

*Standards* - We will conduct our audit in accordance with *Government Audit Standards* (GAGAS).

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*Planning Procedures* - We determined that risk assessment procedures (as documented in the "BARS Cash Basis Planning" folder) were sufficient to confirm the characteristics of the engagement, consider factors significant to the engagement, results of pre-engagement and planning procedures and results of other engagements. We are planning and performing the financial statement audit to achieve a low overall audit risk. Audit risk is the risk that any material misstatements are not detected by the audit. The assessed risk of material misstatement (which is a combination of inherent and control risk) is addressed by planned further audit procedures designed to achieve a corresponding level of detection risk (a measure of the quality and quantity of audit evidence). These assessments will be re-evaluated during the course of the audit and at the conclusion of the audit.

*Financial Reporting Framework* - Since financial statements were prepared in accordance with a special purpose framework, we considered the purpose of the financial statements, intended users and management's decision to use the reporting framework. We concluded that the framework was acceptable for the government's purposes.

*Determination of further audit procedures* - Planning procedures were designed to assess risk for all balances and assertions. Based on our risk assessment, we identified further audit procedures as described below. We determined that no further audit procedures were necessary for other potential risks (beyond overall planning, presentation & disclosure and concluding procedures) in order to limit audit risk to an appropriately low level.

*Presentation & Disclosure* - In addition, a review of presentation and disclosure will be performed as documented in the "Review Presentation & Disclosure" folder, the extent of which will be based on risk.

*Special Planning Methodology* - None

*Other procedures required by standards* - Other procedures required by standards will be performed as documented in the "Concluding Financial Audit Procedures" folder, the extent of which will be based on risk.

### **MATERIALITY**

Materiality and risk of material misstatement are based on planning procedures and are designed to achieve a low overall audit risk. Decisions reflect an **overall assessed risk of material misstatement of MODERATE**.

*Planning Materiality* – Our quantitative materiality threshold is **10%** of total expenditures (not including Other Decreases in Fund Resources) on the **C-4; 2019: \$860,592.60 , 2020: \$911,054.30**. Qualitative factors are based on auditor judgment after considering the interests of the identified users, preliminary analytical procedures, our knowledge of the entity and its environment, etc. We considered whether separate or lower materiality thresholds should be set for particular elements and determined that further thresholds were not necessary.

*Tolerable Misstatement* – Our tolerable misstatement threshold is **75%** of materiality. We will reevaluate judgments made in planning and our

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planned audit procedures if we identify net misstatements exceeding our tolerable misstatement threshold for cash or revenues / expenditure balances.

*Aggregation of Misstatements Floor* – The floor is documented in the Aggregation of Misstatements worksheet [Aggregation of Misstatements (BARS Cash)].

### **CASH FLOW RECONCILIATION TEST**

We plan to reconcile cash activity (beginning balance, revenues, expenditures and ending balance) bank statements. This test will cover:

*Balance(s):* all financial statement amounts

*Assertion(s):* existence and completeness risks related to the statements not agreeing with actual bank activity.

*Inherent Risk:* MAX

*Significant Accounting System:* bank reconciliation

*Control Risk:* MAX

*Risk of Material Misstatement:* MAX

### **ADDITIONAL RISKS IDENTIFIED**

The following are risks that require further audit procedures in addition to our Cash Flow Reconciliation step:

***Management Override of Controls:*** Management is in a unique position of control over financial reporting. Since this risk is unpredictable and always present, it must be considered a significant risk.

*Balance(s):* all

*Assertion(s):* all

*Inherent Risk:* MAX

*Significant Accounting System:* Period End Financial Reporting

*Control Risk:* MAX

*Risk of Material Misstatement:* MAX

*Planned Testing:*

- We updated our understanding of the period end financial reporting process in FS Controls - BARS Cash Basis.
- We will also scan and test year-end adjusting journal entries, including any consolidating entries and off-book adjustments, and consider additional testing of journal entries throughout the period in [Management Override of Controls].
- We will review accounting estimates for biases in [Management Override of Controls].

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- We identified **no** red flags or significant pressures or incentives to intentionally misstate revenues. We therefore do not consider improper revenue recognition as a risk of material misstatement due to fraud.
- We identified **no** significant unusual, unsupported, disputed or related party transactions occurring outside the government's normal course of business to test.
- We will remain alert for indications of management override during the course of the audit and will test journal entries for material balances based on risk.

### **SIGNIFICANT RISKS**

Based on planning procedures and the planning conference brainstorm, we identified the following significant risks that will represent the focus of the financial statement audit:

#### **1. Financial Statement Preparation**

*Description of Risk:* Risk that our financial statement finding recommendations from the prior audit were not implemented.

*Balance(s):* All

*Assertion(s):* All

*Inherent Risk:* MAX

*Significant Accounting System:* Period End Financial reporting for FY2019 & FY2020

*Control Risk:* MAX

*Risk of Material Misstatement:* MAX

*Planned Testing:* See Below

- We will update our understanding of the FS preparation process at: FS Controls - BARS Cash Basis
- We will have an experienced auditor with BARS Cash Basis knowledge perform the review of financial statements, notes, schedules and RSI
- We will perform a review of the following balances and evaluate if the City is correctly reporting the balances based on supporting documentation and BARS Cash Basis requirements to determine if prior audit recommendations were implemented:
  - Evaluate fiduciary funds to determine they are classified correctly (See: Review Presentation & Disclosure)
  - Confirm if reported beginning Cash and investment balances are correct for FY2019 & FY2020 (see: Review Presentation & Disclosure)
  - Confirm if reported ending cash and investment balances are correct for FY2019 & FY2020 (see: Cash Flow Reconciliation)
  - Determine if the County accurately reported Revenues, Expenditures and ending cash and investments (see: Cash Flow Reconciliation)
  - Determine if classification of all ending cash and invest balances as reserved and unreserved are supported (see: Review Presentation & Disclosure)

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## **INITIAL TESTING STRATEGIES**

We developed initial audit programs as reflected in the folders, steps and testing strategy tabs for financial statement work. Our initial audit programs reflect mainly considerations and general guidance for assistants, who will document procedures reflecting the final audit program in the record of work done tab.

## **AUDIT RESOURCES**

Based on our planning, we determined the nature, timing and extent of resources necessary to perform the engagement as follows:

*Group Audit Strategy* - We do **not** plan to rely on other external audits.

We do **not** plan to rely on other SAO audits

*Internal Auditors* - We considered the potential for using the work of internal auditors. We do not plan to use the work of internal auditors

*Staffing* - The auditor in charge, supervisor and all assistants are listed in the Team tab of the Profile. We have planned the audit staffing to ensure that all staff are adequately supervised.

We also considered whether specialized skills are needed in performing the audit and determined that assigned personnel collectively have the technical knowledge, skills and experience necessary to perform the audit.

*Independence* - We considered independence in accordance with Audit Policy 3110 and 3120 and identified no threats to independence

*Budget* – We updated the budget for this audit number in TABS and developed a detailed audit budget as documented in [PLAN\_Audit Budget 20201].

## **B.3.PRG - BARS Cash Basis Planning**

*Procedure Step:* FS Entrance Conference

*Prepared By:* TLJ, 11/5/2021

*Reviewed By:* HVB, 12/1/2021

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Purpose/Conclusion.

## **Purpose / Conclusion:**

To communicate our audit responsibilities and the planned scope and timing of the audit to management and the governing body.

Testing Strategy.

**If no entrance conference was held, explain the situation in the record of work done (and the Entrance Conference Explanation Field in the custom tab in the profile). The record of work done must describe how the required information above was communicated to management and those charged with governance.**

## **BEFORE the Entrance Conference:**

- If not clearly evident from the governance structure, determine “those charged with governance” for purposes of audit communication and document our conclusion.  
*Those charged with governance are those responsible for overseeing the strategic direction of the government and fulfillment of the government’s objectives and obligations. In some governments, multiple parties may be charged with governance, including oversight bodies contracting for the audit, members or staff of legislative committees, boards or audit committees. The auditor’s evaluation should consider how the government delegates authority and establishes accountability for management.*
- Communicate with management on entrance conference logistics, such as the time and place of the meeting, who to invite and how to communicate invitations..
- Invite appropriate members of management, the governing body or audit committee and others to the Entrance conference (see template letter available in the SAOStore).
- Prepare the Entrance conference handout the using the required template available in the SAOStore and the [Entrance Conference PowerPoint](#) using the linked template (also available in the Auditor Reference Guide). Both templates must be adjusted as necessary for each audit.

## **DURING the Entrance Conference:**

- Present Entrance conference handout. The conference must include discussion of the following:
- Planned scope and timing of the audit
- An overview of work to be performed by other auditors or in other audits upon which we plan to rely, and the nature of our involvement in this other work
- Engagement staffing



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- Estimated cost of the engagement (local governments or special engagements only)
- Procedures for informing entity management of the status of the engagement, including significant issues, and the appropriate representative(s) with whom to communicate
- Any issues that concern the entity's management or governing body
- Additional information that may be provided to the governing body at the end of the financial audit, if applicable
- Also, consider presenting the Management Representation Letter request and Attorney Letter request (if applicable) with the estimated end of fieldwork date.

### **AFTER the Entrance Conference:**

- Attach the entrance conference handout and any other documents that were presented.  
*Note: When attaching the entrance conference PowerPoint presentation, consider attaching as a PDF file to minimize file size.*
- Document the conference attendees (SAO and client) as well as the date of the conference.
- Document any significant conversations that might result in a change in our risk assessment or audit plan.
- Send copies of the entrance document to any members of the governing body or audit committee who were not able to attend the conference.

Guidance/Criteria.ʹ

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [2130](#) - Inviting Officials to Entrance and Exit Conferences**

**SAO Audit Policy [2210](#) - Conducting Entrance Conferences**

**[Financial Statement Audits](#) Planning Guide**

Record of Work Done.ʹ

### **Invitations:**

We invited the the board to the entrance conference, see:[Entrance Conference Invitation](#)

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## **Entrance Conference:**

The entrance conference handout is documented at [[City of Clarkston Entrance Packet](#)]. The following people attended the official entrance conference, held in accordance with Audit Policy 2210:

- AAM: Heide Brillantes
- AIC: Travis Jones
- City Clerk/Treasurer: Steve Austin
- Mayor: Monika Lawrence

In addition to the topics shown on the entrance conference handout, the following items were also discussed:

- None

We also sent copies of the entrance conference handout along with a cover letter ([\[City of Clarkston Entrance Conference Documentation\]](#)), to the following people:

- Monika Lawrence, Mayor
- John Murray, City Council
- Pat Holman, City Council
- Russ Evans, City Council
- Skate Pierce, City council
- Steven Ebert, City Council
- Steve Austin, Clerk/Treasurer

## **B.4.PR.G - Single Audit Planning**

***Procedure Step:*** Engagement Letter

***Prepared By:*** TLJ, 10/19/2021

***Reviewed By:*** HVB, 10/21/2021

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Purpose/Conclusion.

**Purpose / Conclusion:**

To confirm that a common understanding of the terms of the audit engagement exist with the government.

Testing Strategy.

To confirm our understanding with the government, auditors are **required** to perform the following procedures:

- Choose the appropriate engagement letter template from TeamMate and modify it for the scope of the audit and any special needs.

*Auditors should consider the need to confirm any critical scheduling or deadline issues, access to information at key service providers or component units or other matters that may be necessary to avoid or address prior audit difficulties.*

- Have the engagement letter signed by at least the audit contact and a key oversight official (e.g. the chief executive or a member of the governing body or its audit committee). Auditors should consider whether others within the entity should also sign the engagement letter.

*The team should consider whether signatures by a representative of the governing body, the chief executive and/or a member of the audit committee would be most appropriate for the circumstances and whether others in the organization should also sign. In making this judgment, auditors should consider the risk of miscommunication or lack of communication about the audit within the government, whether deadlines may not be met, and the likelihood and nature of any audit difficulties.*

- Determine most appropriate time to obtain a signed engagement letter, but not later than the entrance conference date. Auditors should print the engagement letter for signature to ensure it is not modified.

*Normally the engagement letter would be signed on the first day of fieldwork. However, it may be more appropriate to sign later after preliminary meetings about scheduling or at the entrance conference to facilitate signing by the governing body.*

*Note that delay or refusal to sign the engagement letter would **not** preclude us from continuing with the audit, since our audit authority is based on statute and our own policy. However, in such circumstances, auditors should proceed with caution and consult with their manager and assistant director to determine the effect on the audit and the most appropriate response.*

Contact TAS with questions or for assistance with modifications to the engagement letter.

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### Changes to the Engagement Letter:

Auditors should carefully review management requests for major changes to engagement terms. To consider and respond to any requested changes, auditors are required to perform the following additional procedures:

- Understand management's reasoning and objective for the change.
- Discuss the requested change with their manager and, as appropriate, their assistant director and Team Audit Support.
- Auditors should not agree to changes that are not reasonably justified, including a request **during an audit** for a change in engagement type to one with a lower level of assurance.
- Changes to engagement terms **during an audit** should be documented in a new engagement letter or addendum (the addendum template is available in the Store) in accordance with Policy 2140 and 1220. Include the new engagement letter or addendum in the audit documentation and an explanation in the Record of Work Done.
- Update audit plan and related steps to reflect the changes as appropriate.

Auditors should also complete a BUCO for changes to the audit period, scope or budget to update Audit Number information.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **Policy [2140](#) - Engagement Letters**

### **[Single Audits under Uniform Guidance](#) Planning Guide**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

### **[AU-C 210](#) – Terms of Engagement**

Record of Work Done:

See FS Engagement Letter step at [[FS Engagement Letter](#)].

### **B.4.PR.G - Single Audit Planning**

*Procedure Step:* Minutes, Other Audits and FAWF

## City of Clarkston

**Prepared By:** TLJ, 10/19/2021

**Reviewed By:** HVB, 10/21/2021

Purpose/Conclusion:

**Purpose:**

To review the minutes, other audits and FAWF for items to consider in planning the single audit.

**Conclusion:**

From our review of the minutes, other audits and FAWF for items to consider in the single audit we noted no significant risks to bring to brainstorm.

Testing Strategy:

**MINUTES**

Review the minutes, other audits and the future audit work file (FAWF) for information that would have an **impact on the Single Audit to be performed as well as the Schedule of Expenditures of Federal Awards:**

Review minutes for information relevant to the single audit, such as:

- New grants, federal loans or federal equipment/goods received by the entity.
- Indications of difficulty with grant-related projects.
- Discussion about transactions and decisions being made by management on grant related projects.
- Staffing changes that effect grant management.
- Results of prior single audits.
- Issues noted in other SAO audits or investigations that may affect federal grants.
- Results of any granting agency audits or program reviews.
- Results of other auditor's audits (ex. component unit single audit performed by CPA firm).

*Note: if minutes were reviewed in another section of the audit please be sure to either link to that review and document the auditor's evaluation and conclusions relevant single audit information to this step.*

**FAWF**

Review FAWF for items relevant to the single audit.

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## **OTHER AUDITS or ENGAGEMENTS**

**STEP 1: Identify** other audits or engagements that may be relevant to single audit objectives by:

- Checking the Entity Information Suite (EIS) "Reports" tab to identify prior SAO audits and investigations
- Checking the EIS "Special Investigations" tab to identify prior and in-progress investigations.
- Inquiry with management to identify any non-SAO audits, engagements or studies related to single audit such as component unit single audit performed by CPA firm, or program monitoring performed by awarding agencies. See Audit Policy 3510 – Use of External Auditor's Work and 3530 – Use of Grant/Program Monitors work related to grant or oversight agency work.
- If applicable, inquiry with internal auditors or review results of internal audit work to identify any potential risks. However, reliance may not be placed on the work of internal auditors unless requirements of audit policy 3520 are followed.

**STEP 2: Review** information identified in Step 1 that may relate to single audit objectives and consider:

- Prior single audit findings and issues (see attached template).
- Scope and issues from other audits and engagements.

*Auditors should consider areas tested during the accountability or financial statement audit that also relate to single audit risks, such as revenue or expenditure testing, confirmation of grant awards and expenditures, testing cost allocation plans, etc.*

**STEP 3: Inquire** about the entity's asserted status of any relevant recommendations or findings. For prior audit findings and management letters, auditor should first check the Entity Reported Status in Tracker and then ask the entity whether the Tracker information is current and for further details as needed. If there was a prior single audit finding, **request a copy of the "management decision"**.

*If the Entity Reported Status is not completed or up-to-date, auditors should encourage the client to update it. However, it is not the auditor's responsibility to ensure it is filled out if the client does not take this opportunity.*

Further follow-up procedures to determine whether the issue was resolved may be performed at this point or incorporated into the audit plan.

Guidance/Criteria:

## **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

The Office of Management and Budget (OMB) Uniform Guidance requires a risk-based approach to identify major federal programs for audit. This risk-based approach involves specific steps that must be followed to meet audit requirements, see audit SAO Audit Policy 5210.

## City of Clarkston

**MANAGEMENT DECISION** - Pass-through agencies must issue a management decision for audit findings related to federal awards it makes to subrecipients within six months of acceptance of the audit report by the Federal Audit Clearinghouse. It is important, relevant information the auditor should consider when following up on audit findings.

### **SAO Audit Policy [5210](#) – Planning Single Audits**

#### **[Single Audits under Uniform Guidance](#) Planning Guide**

**[Tracker Quick Reference Guide](#)** - provides auditor instructions about updating Tracker

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

#### **Title 2 U.S. Code of Federal Regulations Part 200 ([2 CFR §200](#)) - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)**

- **[2 CFR §200.332](#) Requirements for pass-through entities** - §200.332(d) states that all pass-through entities must Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:
  - (1) Reviewing financial and performance reports required by the pass-through entity.
  - (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
  - (3) **Issuing a management decision** for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision.
- **[2 CFR §200.521](#) Management decision** - provides guidance for each parties responsibilities
  - (a) General. The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee. While not required, the Federal agency or pass-through entity may also issue a management decision on findings relating to the financial statements which are required to be reported in accordance with GAGAS.

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(b) Federal agency. As provided in §200.513 Responsibilities, paragraph (a)(7), the cognizant agency for audit must be responsible for coordinating a management decision for audit findings that affect the programs of more than one Federal agency. As provided in §200.513 Responsibilities, paragraph (c)(3), a Federal awarding agency is responsible for issuing a management decision for findings that relate to Federal awards it makes to non-Federal entities.

(c) **Pass-through entity. As provided in §200.332 Requirements for pass-through entities, paragraph (d), the pass-through entity must be responsible for issuing a management decision for audit findings that relate to Federal awards it makes to subrecipients.**

(d) Time requirements. The Federal awarding agency or pass-through entity responsible for issuing a management decision **must do so within six months of acceptance of the audit report by the FAC.** The auditee must initiate and proceed with corrective action as rapidly as possible and corrective action should begin no later than upon receipt of the audit report.

(e) Reference numbers. Management decisions must include the reference numbers the auditor assigned to each audit finding in accordance with §200.516 Audit findings paragraph (c).

Single Audit Act Amendments of 1996

### **AU-C §935 – Compliance Audits**

Record of Work Done.:

#### **MINUTES**

We reviewed the minutes for items relevant to the single audit from 1/7/2019 through 7/26/21 (see: [Meeting Minutes Review - Clarkston](#)) and noted no potential single audit risks to bring to brainstorm.

#### **Future Audit Work File (FAWF) items:**

Since the conclusion of the last audit, we monitored media reports, correspondence and observations from other audits and statewide activities for any potentially relevant information. We reviewed the FAWF for items relevant to the single audit and noted no potential single audit risks to bring to brainstorm.

#### **Prior Single Audit Exceptions:**

From our review we noted no prior single audit exceptions.

#### **Accountability Audits:**



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Our office performs regular accountability audits for compliance with state law and local policies, safeguarding of resources and controls over these matters. We reviewed the FY16-18 accountability audit and noted **no** risk indicators related to single audit

### **Group Audits:**

We identified **no** component auditors.

### **Citizen Hotline:**

We checked EIS for any relevant citizen hotline referrals and noted **no** risk indicators.

### **Fraud / Loss Reports:**

Governments are required by law to notify our office of any known or suspected fraud, losses or illegal acts. We checked EIS for any relevant loss reports or investigations and noted **no** risk indicators.

### **Internal Audits:**

We identified **no** relevant internal audit function.

### **Other Engagements:**

We inquired with Clerk/Treasurer Steve Austin on 9/8/21 regarding other audits or engagements that may be relevant to the single audit and noted none.

### **B.4.PRG - Single Audit Planning**

*Procedure Step:* Single Audit History

*Prepared By:* TLJ, 10/19/2021

*Reviewed By:* HVB, 10/21/2021

Purpose/Conclusion:

### **Purpose / Conclusion:**

To review the single audit history for planning purposes.

Testing Strategy:

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To review single audit history, auditors are **required** to:

- **Export the "Uniform Guidance Single Audit History and Low Risk Auditee Status"** report from the Financial Analysis Program (FAP) for this entity (which is sourced from the Federal Audit Clearinghouse of previously submitted Data Collection Forms). In FAP, from the drop down menu, select the entity and year, and for the "System" select "Federal Clearinghouse". Expand "Entity Specific" and run the report.
- Scan the information for the most recent prior year for accuracy and to assess risk. *Incorrect data implies an inaccuracy with previously submitted Data Collection Forms.* If you are uncertain if the information is accurate, you can check it against the previous audit report(s). Also, expand columns to make sure you can see all the information as needed. *If any data appears to be incorrect, contact [fapalert@sao.wa.gov](mailto:fapalert@sao.wa.gov) for instructions.*
- Link to the "Minutes, Other Audits and FAWF" procedure step where recent single audit management letter or exit items were identified.
- Use the information to help you determine whether the auditee qualifies as a low-risk entity and assess risk for individual federal programs.

Guidance/Criteria.:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [5210](#) – Planning Single Audits**

**[Single Audits under Uniform Guidance](#) Planning Guide**

Record of Work Done.:

We obtained single audit history information from the Federal Clearinghouse, as detailed in the attached matrix [[Single Audit History Low Risk Status - Post UG](#)].

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We also reviewed EIS for any recent single audit management letter or exit items and noted **no** issues to consider.

We considered this information in determining low-risk auditee status and in assessing risk for federal programs.

### **B.4.PR.G - Single Audit Planning**

***Procedure Step:*** Schedule of Expenditures of Federal Awards

***Prepared By:*** TLJ, 12/28/2021

***Reviewed By:*** AMS, 3/4/2022

Purpose/Conclusion.
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#### **Purpose**

To assess the risk of material misstatement and determine whether the SEFA is complete and properly presented in relation to the financial statements taken as a whole.

#### **Conclusion:**

We assessed the risk of material misstatement as **high**; we noted **no** material weaknesses or significant deficiencies in internal controls over SEFA preparation. **We did, however, identify the following trivial presentation errors that are not aggregated:**

#### **Notes to SEFA:**

- The City should remove the following headers from the Notes to the Schedule of Expenditures of Federal Awards - "MCAG No. 0197" and "Schedule F-3".
- The City should remove underline from language in Note 1 - Basis of Accounting.
- The City should remove negative disclosure in Note 2 - Federal De Minimis Indirect Cost Rate, "The amount expended includes \$ -0 claimed as an indirect cost recovery using an approved indirect cost rate of 10 percent".
- Note 8 should be disclosed as Note 3.

#### **SEFA:**

- CFDA 16.588 - Pass-through Agency should be disclosed as "Washington State Department of Commerce".

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- CFDA 20.205 - Pass-through Agency should be disclosed as "Washington State Department of Transportation" instead of abbreviated.
- CFDA 20.600 - Pass-through Agency should be disclosed as "Washington Association of Sheriffs and Police Chiefs" instead of abbreviated.
- CFDA 21.019 - Pass-through Agency should be disclosed as "Washington State Department of Commerce".

Based on work performed, we determined that the SEFA is fairly presented in relation to the financial statements taken as a whole.

Testing Strategy:

See [CFDA Notes](#) on the federal resources page for information on SEFA reporting for specific programs

**COVID-19 Expenditures: Per OMB M-20-26 and the 2020 Compliance Supplement, governments must separately identify COVID-19 expenditures on the SEFA, DCF and audit findings by identifying COVID-19 expenditures on a separate line by CFDA number with "COVID-19" as a prefix to the program name (including new COVID-19 only programs). See the BARS or ABFR Manual SEFA instructions as applicable.**

**Donated Personal Protective Equip (PPE) – (per Appendix VII of the Addendum to the 2020 Compliance Supplement) During the emergency period of COVID-19 pandemic and as allowed under OMB Memorandum M-20-20 (April 9, 2020), federal agencies and recipients can donate PPE purchased with federal assistance funds to various entities for the COVID-19 response. The donated PPE were mostly provided without any compliance or reporting requirements or assistance listing (CFDA) information from the donors. As such, the non-federal entities that received donated PPE should provide the fair market value of the PPE at the time of receipt as a stand-alone footnote accompanying their SEFA. The amount of donated PPE should not be counted for purposes of determining the threshold for a single audit or determining the type A/B threshold for major programs, and is not required to be audited as a major program. Because donated PPE has no bearing on the single audit, the donated PPE footnote may be marked "unaudited".**

**COVID -19 Vaccines – The COVID-19 vaccines are not considered Federal financial assistance in accordance with 45 CFR part 75 and therefore would not be included as expenditures in the SEFA. For the purposes of the Vaccination Program, COVID-19 vaccine doses do not transfer to recipients, but, rather, remain federal property until the point at which they are administered to individuals. Therefore, it has been determined that the vaccines do not meet the definition of Federal financial assistance.**

**For GAAP and BARS Cash, refer to the [BARS Manual Schedule 16 \(SEFA\) instructions](#) for additional details and guidance on SEFA reporting requirements.**

**For Schools, refer to the SEFA instructions for FY20 found in the [ABFR Handbook](#) Chapter 11, which has special SEFA reporting instructions for transferability and Small Rural School Achievement (SRSA) Program.**

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### **SEE CFDA NOTES FOR THE SEFA REPORTING REQUIREMENTS FOR THE USDA CHILD NUTRITION CLUSTER (10.553/555/556/559) AND DEPARTMENT OF EDUCATION STABILIZATION FUND (84.425).**

#### **Step 1: Assess Inherent Risk (IR)**

Assess inherent risk of material misstatement in SEFA reporting.

*Inherent risk would usually be assessed as HIGH due to the complexity of this schedule and its importance for properly planning the single audit and meeting coverage requirements, unless there are only a few grants to report that are not complex.*

#### **Step 2: Gain Understanding of Controls over SEFA preparation**

Obtain an understanding of the auditee's SEFA preparation process and identify the key controls that ensure the schedule is complete and properly presented in accordance with the Uniform Guidance 2 CFR 200.510(b), specifically:

- Methods of preparing the information
- Whether preparation methods have changed from the prior year and if so, the reasons for the change.
- Any significant assumptions or interpretations made by management regarding SEFA reporting. For example, this might include when an award is determined to be expended, how program income is determined, or how noncash awards are recognized.

*Note: This schedule is required and defined by 2 CFR 200.510(b). Our understanding about the purpose of supplementary information and criteria for preparing it is described in BARS 4.14.5 and cited in the Guidance / Criteria tab. Based on 2 CFR 200, conditions required by AU-C 725.05 are determined to be met.*

#### **Step 3: Confirm Understanding**

Confirm your understanding to determine whether key controls have been placed in operation (that is, whether the entity has actually implemented key controls).

*A walkthrough of a transaction is considered the most effective way of corroborating your understanding of internal controls. Inquiries, inspection of records and observation are other acceptable methods. However, inquiry alone is not sufficient to determine a control has been implemented.*

*When a key control is discovered to not actually be placed in operation, a significant deficiency likely exists. Depending on the magnitude and likelihood of potential effects and any compensating controls, the deficiency may represent a material weakness.*

#### **Step 4: Test Controls (if applicable)**

If the auditor plans to support a control risk assessment of less than MAX, test the operating effectiveness of key controls (whether controls were consistently and effectively applied).

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*We typically would not test SEFA preparation controls and instead assess control risk at MAX for efficiency purposes.*

### **Step 5: Assess Final Control Risk (CR)**

Evaluate the results and document a final control risk assessment. Consider whether any internal control issues identified represent material weaknesses or significant deficiencies.

*Control risk is the risk that material misstatements would not be prevented or detected timely by internal controls. In order to support a control risk assessment that is less than MAX, the auditor must test the operating effectiveness of controls in step 4. Regardless of this decision, the auditor must report any significant deficiencies or material weaknesses discovered in either the design or operation of controls.*

*A material weakness exists when the design or operation of controls results in a "reasonable possibility" that controls will not prevent or detect material misstatements. A significant deficiency is a control deficiency that is less severe than a material weakness, yet important enough to merit the attention of the governing body. See the Policy/Criteria tab for more guidance on evaluating whether an identified issue represents a material weakness or significant deficiency. **All potential significant deficiencies and material weaknesses should be discussed with the AIC or AAM, since they must be reported as findings.***

### **Step 6: Assess Risk of Material Misstatement (RMM)**

Assess the RMM at LOW, MODERATE or MAX. This is a combination of inherent risk and control risk based on auditor judgment. This assessment should be considered when designing the nature and extent of substantive procedures.

### **Step 7: Substantive Testing of SEFA**

Test SEFA by performing the following procedures:

- Confirm the auditee has provided the final version of the SEFA in the annual report filing. If any updates or corrections are needed, confirm these have been made in annual report filing before proceeding.
- Check the [CFDA Notes](#) document to determine if any known special rules apply to recognizing or reporting expenditures for any of the listed grant programs. Auditors should be alert for any special rules affecting grant expenditure reporting.
- Read the SEFA and related notes, considering results of procedures performed and knowledge obtained during the audit. Determine if notes contain required disclosures. Compare SEFA footnotes to BARS/ABFR example.

*At a minimum, the footnotes must describe the basis of accounting and whether or not the auditee elected to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs.*

*Auditors gain additional assurance regarding reported amounts when testing direct and material compliance requirements for each major program. Any misstatements noted during this testing should also be considered here.*

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- If schedule was obtained from LGCS (that is, generated by annual report filing), the schedule will foot and presentation will match the BARS manual. Otherwise, manually determine proper footing and presentation.
- If schedule was obtained from LGCS (that is, generated by annual report filing), check the Schedule 16 Federal Validation on the Yellow Flag Report to determine if CFDA's, federal agencies and program titles are accurate. Otherwise, check CFDA numbers and program titles manually.

*CFDA numbers and official program titles can be checked at <https://beta.sam.gov/> . Any incorrect numbers or titles should be included on our aggregation of misstatements. In online reporting, Schedule 16 will validate CFDA's and default (or flag if changed) to the official federal agency and program title for each CFDA. Part 5 of the Compliance Supplement lists clusters of programs and is updated annually.*

*Programs with no CFDA number or the CFDA number is unknown*

*If the three-digit extension is unknown, enter a "U" followed by a sequential two-digit number in the CFDA extension. For example, the first Federal program with an unknown three-digit extension would be U01 for all award lines associated with that program; the second would be U02.*

- Trace figures to the underlying accounting and other records. Auditors may use the attached optional template to document tracing.  
*The extent of tracing expenditures to accounting records is determined by auditor judgment. It is recommended to trace amounts reported for all Type A programs and any Type B programs that would require a risk assessment.*

**Consider** additional procedures to review completeness and appropriateness based on assessed risk:

- Is the SEFA prepared on the same basis of accounting as the financial statements? If not, Note 1 must describe the difference.
- Are there any new awards that need to be added to the SEFA? Consider comparing total grant revenue with the amount reported as expended on the SEFA as a reasonableness test.
- Are there any programs listed on prior-year schedule that have been omitted during current year? Consider comparing total grant revenue with the amount reported as expended on the SEFA as a reasonableness test.
- Are there any federal loans on the grantee's debt schedule that should be listed on the SEFA? Did the grantee omit a loan it received from a state agency that it believed to be state-funded instead of federal-funded?
- Does the SEFA reflect all the operations of the reporting entity (all departments, offices, agencies, etc.)?
- Does the auditee have any component units? If yes, are the federal awards expended by the component unit(s) included in the auditee's SEFA or did the component unit elect to have its own separate single audit conducted?
- Are grants properly identified as direct or indirect, and if an indirect grant, is the name of the pass-through agency properly identified?
- Are the "other identification numbers" listed on the schedule, such as contract or grant agreement numbers (as noted above, this is required under Uniform Guidance)?

## City of Clarkston

- If the auditee has a cluster, is each program of the cluster identified separately (cluster name and list of programs in the cluster) and the cluster totaled (see above for requirements)?
- Does the SEFA include a separate column to report the total amount provided to subrecipients from each federal award (assuming it had subrecipients - see above for requirements)?
- See BARS/ABFR SEFA instructions for additional information about reporting loans, receipt of property (supplies, equipment, vaccines), Medicaid, FEMA disaster assistance, program income, etc.

### **If significant misstatements are identified**

If you find significant errors on the SEFA, determine whether they were caused by an internal control deficiency related to the preparation of the SEFA. **See the Guidance / Criteria tab for information on situations that could be considered a significant deficiency.** Reporting level determinations for SEFA-related issues will be made in consultation with the assigned Assistant Director. A finding would generally be classified as a significant deficiency in internal control and reported in the "Auditor's Report on Internal Control over Financial Reporting" (I Report), instead of the Uniform Guidance Compliance report (S2 Report). If you feel the deficiency/finding should be classified as a material weakness (in contrast to a significant deficiency), contact your audit manager for guidance.

If changes to the SEFA were made after you planned the single audit, auditors should re-evaluate planning to check that major program selection and coverage requirements are still met.

Guidance/Criteria.

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

This Schedule of Expenditures of Federal Awards (SEFA or "Schedule 16" in the BARS Manual) is required by Subpart F – Audit Requirements (**\$200.510**) of the Uniform Guidance in 2 CFR 200 when the auditee expends \$750,000 or more in federal awards in a year. However, SAO requires all school districts and BARS users to prepare this schedule as part of their annual reporting, even if their annual federal expenditures are less than \$750,000.

Since the SEFA is reported as a supplemental schedule with the financial statements, auditors need to gain an understanding of controls, report any significant deficiency or material weakness in controls over financial reporting, assess the risk of material misstatement and test the SEFA to determine if it is fairly presented in relation to the financial statements taken as a whole.



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**Refer to the SAO BARS Manual or ABFR Handbook for additional details and guidance on SEFA reporting.**

### **Expenditures**

Once the auditee has been officially (or occasionally “conditionally”) awarded federal assistance (either directly from a federal agency or from a pass-through agency), expenditures should be reported on the SEFA in the year that activity related to the project or program takes place, even if the auditee has not yet received the federal funds.

The basis for determining federal awards expended is found in **2 CFR 200.502** of the Uniform Guidance:

“The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force.”

*Note: There are some exceptions to this general rule for auditees that report expenditures on the cash-basis of accounting and some revenue-based grant programs as described in detail in the BARS Manual SEFA instructions. Generally, the auditee should not report its award on the SEFA based on the date that the federal funds are received (e.g., a cash advance or the date it received a reimbursement payment).*

### **Materiality**

Quantitative considerations of materiality are based on the financial statements taken as a whole (total expenditures for all opinion units added together). It is unlikely a control deficiency over SEFA preparation will be material based on this quantitative measure. The reason for reporting the deficiency in a finding will likely be due to a qualitative factor. Qualitative considerations would be based on whether the misstatement could (or did) cause the entity to fail to meet the requirements of Subpart F – Audit Requirements of the Uniform Guidance in 2 CFR 200.

Situations that could be considered a significant deficiency or material weakness for qualitative reasons include:

- An understatement or overstatement of expenditures that, once corrected, creates a new major program that must be audited.
- An understatement of expenditures that could cause the entity to conclude it did not need a single audit when in fact it had exceeded the \$750,000 threshold.
- An understatement of expenditures that, once corrected, could cause the auditor to fail to meet the required audit coverage (20% or 40%).

SEFA findings should be classified as significant deficiencies and are reported in the “Auditor’s Report over Financial Reporting in Accordance with *Government Auditing Standards*” (I-Report) instead of the Uniform Guidance Compliance report. If you feel the finding should be classified as a

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material weakness (in contrast to a significant deficiency), contact the Single Audit Specialist for guidance.

**SAO Audit Policy [5110](#) – Conducting Single Audits and Program-Specific Audits**

**SAO Audit Policy [5120](#) – Audit Standards for Single Audits**

**SAO Audit Policy [5210](#) – Planning Single Audits**

**[Single Audits under Uniform Guidance](#) Planning Guide**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**Title 2 U.S. Code of Federal Regulations Part 200 ([2 CFR §200](#)) - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)**

Record of Work Done.
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### **STEP 1: Inherent Risk of Misstatement**

We have considered inherent risk factors that apply to the Schedule of Expenditures of Federal Awards and assess the inherent risk of material misstatement at **HIGH**, due to the complexity in completing the schedule and its importance in planning the single audit.

### **STEP 2: Understanding of Internal Controls**

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control and the internal control objectives set forth in Uniform Guidance. See the Permanent File folder for additional documentation of our overall COSO evaluation.

### **Process:**

- Steve Austin, City Clerk/Treasurer (CCT) prepares the SEFA and Notes to SEFA. He has been in his current position since FY2017.
- The CCT obtains the grant agreements from all departments (CCT attends City Council meetings and is aware of the activities of other departments due to their small size) that is used in his creation of the SEFA. CCT also attends the sub-committee meetings where these grants are discussed.
- At year-end, the CCT meets with department heads that administered federal grants to ensure all grant documentation is received for the preparation of the SEFA.

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- Steve uses the reimbursement requests to prepare the SEFA, to ensure all grant expenditures are included and the SEFA is accurate and complete. Expenditures submitted for reimbursements are then tied back to the GL to ensure that all expenditures are reported on the SEFA.
- The CCT compares the amounts reported on the request forms/reimbursement requests to the amounts posted in the general ledger to ensure that the amounts appear reasonable.
- The CCT uses the grant agreements to ensure CFDA numbers, descriptions, and fund origins are correct and accurate.
- The City uses LGCS to ensure that the SEFA complies with the BARS Manual SEFA format guidelines.
- CCT uses the BARS manual to prepare the SEFA notes.
- For 2020, the City was required by BARS to indicate COVID-19 funds for each CFDA with a "COVID-19" designation. The CCT reviewed the guidance from SAO and requested and reviewed each grant agreement prior to making a determination if the funds were COVID funds.
- The CCT prints out a LGCS generated SEFA schedule and compares it to his compiled information ( Grant Agreements, submitted reimbursement requests, and GL expenditure reports) to ensure that the SEFA data is accurate. Following which, the Mayor conducts a review of the SEFA and all of its supporting documentation to ensure it is accurate and complete as part of her review of the entire annual report.

### Key Control:

**To ensure the SEFA is complete and properly presented in relation to the financial statements as a whole, City Clerk Treasurer Steve Austin prepares it using all of the reimbursement requests submitted throughout the year for federal funds (and their respective grant agreements), GL expenditure reports, and utilizes the SAO template for both the schedule and the notes. The mayor then subsequently reviews the schedule along with all of its support to ensure it is accurate and complete prior to its final submission.**

### **STEP 3: Confirm Key Controls**

**Key Control:** To ensure the SEFA is complete and properly presented in relation to the financial statements as a whole, Clerk Treasurer, Steve Austin prepares it using all of the reimbursement requests submitted throughout the year for federal funds (and their respective grant agreements), GL expenditure reports, and utilizes the SAO template for both the schedule and the notes. The Mayor reviews the schedule and notes along with all of its support to ensure it is accurate and complete prior to final submission.

Confirmation: We obtained the City's fiscal year 2020 annual report file which included the SEFA preparation documents and noted it contained the following: rough draft SEFAs, grant agreements, reimbursement requests, GL revenue reports and GL expenditure reports. We also noted tickmarks and notes in the SEFA preparation documents from the Clerk Treasurer. We also noted review tickmarks from the Mayor and signature on the review page dated 4/29/21. **Key Control Confirmed.**

### **STEP 4: Test Key Controls**

We are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

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## **STEP 5: Final Control Risk Assessment**

**MAX** - We noted no matters involving internal control over SEFA preparation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

## **STEP 6: Risk of Material Misstatement**

Based on our assessment of inherent risk and control risk above, we assessed the risk of material misstatement at **MAX**.

## **STEP 7: Substantive / Compliance Testing**

- Confirm the auditee has provided the final version of the SEFA in the annual report filing. If any updates or corrections are needed, confirm these have been made in annual report filing before proceeding.  
On 9/8/2021, Clerk Treasurer, Steve Austin confirmed the City provided the final version of the SEFA in its annual report filing.
- Check the CFDA Notes document to determine if any known special rules apply to recognizing or reporting expenditures for any of the listed grant programs. Auditors should be alert for any special rules affecting grant expenditure reporting.  
We checked the CFDA Notes document and determined there were no special rules that apply to recognizing or reporting expenditures for any of the listed grant programs on the City's SEFA.
- Read the SEFA and related notes, considering results of procedures performed and knowledge obtained during the audit. Determine if notes contain required disclosures. Compare SEFA footnotes to BARS/ABFR example. *At a minimum, the footnotes must describe the basis of accounting and whether or not the auditee elected to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs.*  
We read the SEFA and related notes and considered results of procedures performed and knowledge obtained during the audit. We compared the SEFA footnotes to the BARS example and determined notes contained the required disclosures. See Notes to SEFA at [2020 Notes to SEFA].

**We did, however, identify the following trivial errors that are not aggregated:**

- **The City should remove the following headers from the Notes to the Schedule of Expenditures of Federal Awards - "MCAG No. 0197" and "Schedule F-3".**
- **The City should remove underline from language in Note 1 - Basis of Accounting.**
- **The City should remove negative disclosure in Note 2 - Federal De Minimis Indirect Cost Rate, "The amount expended includes \$ - 0 claimed as an indirect cost recovery using an approved indirect cost rate of 10 percent".**
- **Note 8 should be disclosed as Note 3.**

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- If schedule was obtained from LGCS (that is, generated by annual report filing), the schedule will foot and presentation will match the BARS manual. Otherwise, manually determine proper footing and presentation.  
*The schedule was obtained from LGCS. Therefore the schedule foots and presentatin matches the BARS manual.*
- If schedule was obtained from LGCS (that is, generated by annual report filing), check the Schedule 16 Federal Validation on the Yellow Flag Report to determine if CFDA's, federal agencies and program titles are accurate. Otherwise, check CFDA numbers and program titles manually.  
*We checked the Schedule 16 Federal Validation checks on the Yellow Flag Report to determine if CFDA's, federal agencies and program titles were accurate. We noted no exceptions with schedule presentation.*
- Trace figures to the underlying accounting and other records. Auditors may use the attached optional template to document tracing. *The extent of tracing expenditures to accounting records is determined by auditor jdugment. It is recommended to trace amounts reported for all Type A programs and any Type B programs that would require a risk assessment.*  
*We traced reported grant information and amounts to underlying accounting records, including grant agreements and reimbursement requests, for programs with expenditures of \$50,000 or more, as documented here [SEFA Substantiation Template]. We assessed the risk of material misstatement and determined the SEFA is complete and properly presented in relation to the financial statements as a whole, with the exception of the following trivial presentation errors that are not aggregated:*
  - *CFDA 16.588 - Pass-through Agency should be disclosed as "Washington State Department of Commerce".*
  - *CFDA 20.205 - Pass-through Agency should be disclosed as "Washington State Department of Transportation" instead of abbreviated.*
  - *CFDA 20.600 - Pass-through Agency should be disclosed as "Washington Association of Sheriffs and Police Chiefs" instead of abbreviated.*
  - *CFDA 21.019 - Pass-through Agency should be disclosed as "Washington State Department of Commerce".*

### **B.4.PRG - Single Audit Planning**

***Procedure Step:*** Low-Risk Auditee Status  
***Prepared By:*** TLJ, 10/19/2021  
***Reviewed By:*** HVB, 10/21/2021

Purpose/Conclusion.
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## City of Clarkston

### **Purpose:**

To determine if the government qualifies as a low-risk auditee.

### **Conclusion:**

We determined that the government does **not** qualify as a low-risk auditee.

Testing Strategy:

**Per OMB M-20-26:** Awarding agencies, in their capacity as cognizant or oversight agencies for audit, may allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of March 19, 2020 that have normal due dates from March 30, 2020 through June 30, 2020 to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR §200.501 - *Audit Requirements*, up to six (6) months beyond the normal due date. Audits with normal due dates from July 31, 2020 through September 30, 2020 will have an extension up to three (3) months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, **recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR §200.520(a) - Criteria for a low-risk auditee.**

### **Additional Extensions:**

**Guidance was published in the 2020 Compliance Supplement Addendum on December 22, 2020, and in Memorandum M-21-20 on March 19, 2021, by OMB. M-21-20 contained different extension guidance that affects all entities that had not filed their single audits with the Federal Audit Clearinghouse as of March 19, 2021. This additional guidance allowed a six month extension and applies to all entities, not to only those receiving COVID-19 funding.**

### **Affected yearends and new due dates include:**

Fiscal Year Ended	Original 9-month Due Date	Extended Due Date – Addendum (if filed on or before 3/19/2021)	Extended Due Date – M-21-20 (if unfiled at 3/19/2021)
Jan. 31, 2020	Oct. 31, 2020	Jan. 31, 2021*	April 30, 2021
Feb. 29, 2020	Nov. 30, 2020	Feb. 28, 2021*	May 31, 2021

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March 31, 2020	Dec. 31, 2020	March 31, 2021*	June 30, 2021
April 30, 2020	Jan. 31, 2021		July 31, 2021
May 31, 2020	Feb. 28, 2021		August 31, 2021
June 30, 2020	March 31, 2021		September 30, 2021
July 31, 2020	April 30, 2021		October 31, 2021
Aug. 31, 2020	May 31, 2021		November 30, 2021
Sept. 30, 2020	June 30, 2021		December 31, 2021
October 31, 2020	July 31, 2021		January 31, 2022
November 30, 2020	August 31, 2021		February 28, 2022
December 31, 2020	September 30, 2021		March 31, 2022
January 31, 2021	October 31, 2021		April 30, 2022
February 28, 2021	November 30, 2021		May 31, 2022
March 31, 2021	December 31, 2021		June 30, 2022
April 30, 2021	January 31, 2022		July 31, 2022
May 31, 2021	February 28, 2022		August 31, 2022
June 30, 2021	March 31, 2022		September 30, 2022

*\* If a single audit report for this yearend was not filed with the Federal Audit Clearinghouse as of March 19, 2021, the extended due date would be in the next column. If the single audit report was filed before this date, then the extended due date in this column would apply if the entity received COVID-19 funding.*

*Note: If the due date falls on a weekend or federal holiday, it changes to the next business day.*

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No application or approval is needed in either case to use the applicable extension. Entities that take advantage of the extension period must document the reasons for doing so, which does not jeopardize their future qualification for "low risk" status under 2 CFR §200.520.

**For this procedure step, auditors will use the "Uniform Guidance Single Audit History and Low Risk Auditee Status" report that was exported from FAP as instructed in the Single Audit History procedure step above** *(Export the "Uniform Guidance Single Audit History and Low Risk Auditee Status" report from the Financial Analysis Program (FAP) for this entity (which is mainly sourced from the Federal Audit Clearinghouse of previously submitted Data Collection Forms). In FAP, from the drop down menu, select the entity and year, and for the "System" select "Federal Clearinghouse". Expand "Entity Specific" and run the report.)*

Auditors are **required** to check if the auditee meets all the following conditions for each of the preceding two years in order to determine if the government qualifies as a low-risk auditee and is eligible for reduced audit coverage (20% of total federal expenditures). **The FAP report determines most of these conditions for you, however note there are a couple of conditions the auditor must determine. Review the FAP report and let the Single Audit Specialist know if any of the information is incorrect.**

Single audits were performed on an annual basis in accordance with the provisions of Subpart F – Audit Requirements of the Uniform Guidance in 2 CFR 200, including submitting the data collection form and the reporting package to the Federal Audit Clearinghouse (FAC) within the timeframe specified in 2 CFR §200.512 Report Submission (the earlier of 30 calendar days after receipt of the audit report or 9 months after the fiscal year end).

*How do I know when the audit was submitted to the Federal Audit Clearinghouse (FAC)?*

**This query has been performed for you;** see the "Uniform Guidance Single Audit History and Low Risk Auditee Status" report "Audit Year Submitted", "(a) 9 Month Deadline", and "(a) 30 Day Deadline" columns. This report will indicate if the reporting package was submitted to the FAC within the earlier of 30 calendar days after receipt of the report (the report "issue date" is used) or 9 months after the fiscal year end.

The auditor's opinion on whether the financial statements were prepared in accordance with GAAP, or basis of accounting required by state law, and the auditor's in-relation to opinion on the schedule of expenditures of Federal awards were unmodified. **Note, in the state of Washington, state law does not require entities to follow a specific non-GAAP basis of accounting; therefore, non-GAAP entities do not meet this requirement. School Districts are the exception to this rule and may qualify as low-risk because they are required to prepare the F-196 per the Schools Accounting Manual.**

**Note there are two columns in the FAP report for this requirement and the auditor must determine if these**



## City of Clarkston

**requirements have been met.** Click on "ATD" to open the audit report. Review the prior audit reports to determine if the entity prepared GAAP or other basis financial statements, and if GAAP, whether or not the opinion was modified, and whether or not the auditor's in relation to opinion on the SEFA was unmodified. If the financial statements were not GAAP, or the GAAP opinion was modified, the entity does not qualify as a low-risk auditee. **Once you have reviewed the audit report, document one of the following options in the "(b) Financial Statement Opinion" cell: "GAAP/UNMODIFIED - MET", or "GAAP/MODIFIED - NOT MET", "OTHER BASIS - NOT MET", or for schools "GAAP/ADVERSE - MET". For the "(b) SEFA In Relation Opinion" cell, type in "MET" or "NOT MET".**

There were no deficiencies in internal control over financial reporting which were identified as **material weaknesses** under the requirements of Government Auditing Standards (GAGAS). This includes findings for financial statements or the SEFA that are material weaknesses. **This query has been performed for you;** see "(c) Material Weakness Internal Control".

The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern. **This query has been performed for you;** see "(d) Going Concern".

None of the following types of audit findings were issued for a **Type A** program in the last two years; **This query has been performed for you;** see "(e)(1)-(3)":

1. Internal control deficiencies which were identified as **material weaknesses**;
2. A modified opinion or disclaimer of opinion on compliance for a major program;
3. Known or likely **questioned costs** that exceed **5% percent** of the total Federal awards expended for a Type A program during the year.

Guidance/Criteria.

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [5210](#) – Planning Single Audits**

**[Single Audits under Uniform Guidance](#) Planning Guide**

## City of Clarkston

### Record of Work Done:

As detailed in Single Audit History Low Risk Status - Post UG, we checked all the following conditions for each of the preceding two years:

- Single audits were performed on an annual basis - **Criteria not met. The City has not received a single audit since FY15.**
- The data collection form and single audit reporting package was submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the audit report or 9 months after the fiscal year end - **Criteria not met. The City has not received a single audit since FY15.**
- The auditor's opinions on whether the financial statements were prepared in accordance with GAAP and the auditor's "in relation to" opinion on the schedule of expenditures of Federal awards were unmodified - **Criteria not met. The City has not received a single audit since FY15.**
- There were no deficiencies in internal control over financial reporting which were identified as material weaknesses under the requirements of Government Auditing Standards (GAGAS) - **Criteria met**
- The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern. - **Criteria met**
- None of the Federal programs had audit findings from any of the following in either of the preceding two years in which they were classified as Type A programs: **Criteria met**
  1. Internal control deficiencies which were identified as material weaknesses;
  2. Modified opinion on a major program;
  3. Known or likely questioned costs that exceeded five percent of the total Federal awards expended for a Type A program during the year.

### B.4.PRG - Single Audit Planning

*Procedure Step:* Materiality  
*Prepared By:* TLJ, 10/19/2021  
*Reviewed By:* HVB, 10/21/2021

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Purpose/Conclusion.:

**Purpose:**

To document materiality for our audits of federal programs.

**Conclusion:**

We have established our preliminary judgments about how we will evaluate the materiality of internal control deficiencies and instances of noncompliance should they arise during our audit of a major program.

Testing Strategy.:

Review the standard materiality policy stated below in the Record of Work Done. Consult with a supervisor if you determine a modification needs to be made to the materiality preliminary judgments for your auditee. Sign off on this step after you read the materiality guidance.

Guidance/Criteria.:

**ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

AICPA Audit Guide, Government Auditing Standards and Single Audits, provides the following guidance on materiality in relation to federal programs:

In a compliance audit, the auditor's consideration of materiality in a Uniform Guidance compliance audit differs from that in an audit of the financial statements. Materiality is affected by (a) the nature of the compliance requirements, which may or may not be quantifiable in monetary terms; (b) the nature and frequency of noncompliance identified with an appropriate consideration of sampling risk; and (c) qualitative considerations, such as the needs and expectations of federal agencies and pass-through entities.

**SAO Audit Policy [5210](#) – Planning Single Audits**

**[Single Audits under Uniform Guidance](#) Planning Guide**

Record of Work Done.:

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## Internal Controls

When evaluating deficiencies found in an auditee's internal controls over compliance, we will use the chart in the Major Federal Program spreadsheet as guidance. This evaluation will be made for each compliance requirement selected for audit.

Compliance areas that do not have monetary values, such as reporting, may qualify as findings due to quantitative or qualitative characteristics that are non-monetary in nature. The auditor should consider whether internal controls are ineffective to prevent or detect non-compliance. Quantitative considerations may include the frequency of the identified noncompliance. Qualitative considerations may include the needs and expectations of federal agencies and pass-through entities. Factors that indicate that controls leading to potential non-compliance may be **immaterial** include (A) a single exception that has a low risk of being pervasive, (B) a low risk of public or political sensitivity, or (C) an indication, based on the auditor's judgment and experience, that the affected federal agency or pass-through entity would normally not need to resolve the finding or take follow-up action.

## Tests of Compliance

Individual compliance areas - We will report as findings any known and likely questioned costs that exceed \$25,000 for a particular compliance requirement. For other instances of noncompliance without questioned costs (for example, a financial report that contains errors or a case where subrecipients have not been monitored), we will consider reporting a finding if the monetary value associated with the noncompliance exceeds **10%** of total program expenditures or the noncompliance exceeds **10%** of activity associated with the compliance requirement. When our test size is less than **10%** of total program expenditures or less than **10%** of activity associated with the compliance requirement, auditors should consider either expanding testing or extrapolating the results to determine whether the **10%** threshold would likely be exceeded. However, this general rule will not preclude us from reporting a finding for lesser amounts, nor will this preclude us from reevaluating our materiality threshold and expanding and/or modifying the nature and extent of testing. We also recognize that noncompliance can occur in areas without an associated monetary value and not result in questioned costs. Such cases will be evaluated using both quantitative and qualitative factors. Quantitative factors include the frequency of the noncompliance, with an appropriate consideration of sampling risk. Quantitative factors that may be considered immaterial include a single exception with a low risk of pervasiveness. Qualitative factors include (1) the nature of the noncompliance and its significance to the overall program, (2) the nature and extent of any uncertainties associated with the issue, (3) the level of public or political sensitivity, and (4) the perspective of the grantor agency as to the importance of the issue. Qualitative factors that indicate that an identified instance of noncompliance may be immaterial include (A) an exception whose nature is trivial to the compliance requirement and the overall program, (B) an issue that unavoidably involves a significant degree of subjectivity, (C) a low risk of public or political sensitivity or (D) an indication, based on the auditor's judgment and experience, that the affected federal agency or pass-through entity would normally not need to resolve the finding or take follow-up action.

Opinion on compliance for each major program – If the dollar amount associated with instances of noncompliance or scope limitations, either for an individual compliance requirement or aggregated compliance requirements, exceeds **20% of the total program costs**, we will consider modifying our opinion (issuing a qualified, adverse, or disclaimer of opinion) on compliance for the program as a whole. This does not preclude auditors from modifying their opinion for lesser amounts. In addition to this monetary measure, auditors should evaluate non-monetary factors, both quantitative and qualitative, when considering whether to modify their opinion on compliance for the program. Auditors should also recognize

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it may be necessary to modify their opinion on compliance for scope limitations where sufficient and appropriate audit evidence could not be obtained for examination.

When evaluating the effect of identified noncompliance or scope limitations on our opinion over compliance, we will use the chart in the Major Federal Program spreadsheet as guidance. This evaluation will be made for both individual compliance requirements and aggregated compliance requirements.

### B.4.PRG - Single Audit Planning

*Procedure Step:* Risk Assessments & Major Programs

*Prepared By:* TLJ, 10/27/2021

*Reviewed By:* HVB, 10/27/2021

Purpose/Conclusion:

**Purpose:**

To perform risk assessments as applicable to determine the major programs. Also, to obtain audit programs from the SAOStore.

**Conclusion:**

We performed risk assessments as applicable to determine the major programs. We also obtained audit programs from the SAOStore.

Testing Strategy:

### **Selecting Major Programs for Audit**

The auditor must use a risk-based approach to determine which Federal programs are major programs. This risk-based approach must include consideration of: current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program.

**Use the attached spreadsheet to document risk assessments and determine the major programs you will audit:**

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**Step 1.** Input the fiscal year end date where indicated in the spreadsheet.

**Step 2.** Input the total federal expenditures where indicated based on the final Schedule of Expenditures of Federal Awards.

**Step 3.** Select the percentage of coverage required -- 20% or 40% -- based on whether the auditee qualified as a "low risk auditee". (The spreadsheet will then calculate the dollar amount of required coverage).

The purpose of the percentage of coverage rule is to ensure that a minimum amount of expenditures are covered in an audit conducted under Uniform Guidance (Subpart F – Audit Requirements 2 CFR §200.518(f)). Accordingly, the auditor must audit programs with federal awards expended that, in aggregate, encompass at least 40% of total federal awards expended. If the auditee meets the criteria for a low-risk auditee, the minimum coverage is reduced to 20%.

**Step 4(a).** Determine Type A and Type B programs based on the final SEFA.

Type A programs are those with expenditures equal to or exceeding \$750,000. See the table below for Type A/B threshold when total Federal awards expended exceeds \$25 million.

Total Federal awards expended	Type A/B threshold
Equal to or exceed \$750,000 but less than or equal to \$25 million	\$750,000
Exceeds \$25 million but less than or equal to \$100 million	Total Federal awards expended times .03
Exceeds \$100 million but less than or equal to \$1 billion	\$3 million
Exceeds \$1 billion but less than or equal to \$10 billion	Total Federal awards expended times .003
Exceeds \$10 billion but less than or equal to \$20 billion	\$30 million
Exceeds \$20 billion	Total Federal awards expended times .0015

- Any federal programs not labeled "Type A" must be labeled "Type B" programs.
- All awards with the same CFDA number are considered a single "program".
- Clusters. You may have to combine one or more programs into a "cluster" and re-evaluate if the aggregated amount has become a Type A.

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As defined by 2 CFR §200.17, a "cluster of programs" means a grouping of closely related programs that share common compliance requirements. A cluster of programs must be considered a single program for determining major programs (labeling a Type A and Type B program and assessing risk). OMB designates those programs that are considered to be clusters of Federal programs in Part 5 of the Compliance Supplement, which is updated annually. Part 5 has information about the Research and Development Cluster, Federal Student Aid Cluster, and Other Clusters. The list of "Other Clusters" is located near the end of Part 5.

### **Excluding certain loans from the Type A calculation:**

According to the Uniform Guidance, Subpart F – Audit Requirements, 2 CFR 200.518(b)(3), the inclusion of "large" loans and loan guarantees must not result in the exclusion of other programs being classified as Type A programs. When a Federal program providing loans exceeds four times the largest non-loan program it is considered a large loan program, and the auditor must consider this Federal program as a Type A program and exclude its values in determining other Type A programs. This recalculation of the Type A program is performed after removing the total of all large loan programs. For the purposes of this paragraph a program is only considered to be a Federal program providing loans if the value of Federal awards expended for loans within the program comprises fifty percent or more of the total Federal awards expended for the program. A cluster of programs is treated as one program and the value of Federal awards expended under a loan program is determined as described in §200.502 Basis for determining Federal awards expended.

Example SEFA:

Loan #1	\$20,000,000
Grant #1	\$ 750,000
Grant #2	\$ 850,000
Grant #3	\$ 3,000,000
Grant #4	\$ 4,000,000
All others	\$ 1,400,000 (each individual grant is below \$750,000).
TOTAL	\$30,000,000

Based on total federal expenditures of \$30 million, the Type A threshold is \$900,000. But, if you exclude the "large loan" (i.e., any loan that exceeds 4 times the largest non-loan program – for example, grant #4 multiplied by 4) from the total expenditures, the Type A threshold, when recalculated, drops to \$750,000. As a result, you would classify Grant #1 and Grant #2 as additional Type A programs when you normally would not have done so under the original Type A threshold of \$900,000.

**Step 4(b).** Input into the spreadsheet the programs listed on the SEFA. Combine programs into one row that are considered a cluster as these will need to be analyzed and audited as a single program.

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*The spreadsheet will automatically determine whether a program is a Type A or Type B based on the total federal expenditures you input in Step 2 above.*

- You are required to perform risk assessments for all Type A programs.
- You are required to perform risk assessments, one at a time, for Type B programs that exceed 25% of the Type A threshold determined in step 4(a) above (for example, if the Type A threshold is \$750,000, risk assessments are required on Type B programs exceeding \$187,500). However, the auditor is not required to identify more high-risk Type B programs than at least one fourth of the number of low-risk Type A's (for example, if you identified up to four low-risk Type A's, you are only required to identify one high-risk Type B and may stop assessing the risk of other Type B programs). NOTE: See next bullet for exceptions and additional information.
- If the grantee does not have any Type A programs or any low-risk Type A programs, you are not required to perform a risk assessment of Type B programs (because  $1/4^{\text{th}}$  of 0 = 0). At that point, use auditor judgment to choose the Type B programs until coverage is met. As noted below under Type B risk criteria, a Type B program should be considered a high risk program if the prior audit reported a material weakness in internal control or compliance problems; otherwise, a single criteria in risk would seldom cause a Type B program to be considered high-risk. Further, when identifying which Type B's to assess, the Uniform Guidance encourages auditors to use an approach which provides an opportunity for different high-risk Type B's to be audited as a major program over time.

**Step 5(a).** Assess the risk of noncompliance occurring that could be material to the federal program. **Note the risk assessment criteria used in the determination of low-risk Type A programs is different than the risk criteria used in the determination of high-risk Type B programs.** For Type A and Type B programs (determined above) use the attributes identified on the spreadsheet.

### **Type A risk criteria:**

Section 200.518(c) of the Uniform Guidance requires the auditor to identify Type A programs that are low-risk. Before a Type A program can be considered low-risk, it must first meet both of the following criteria:

- Audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit). *See below for additional considerations when a program is added to an Other Cluster.*
- In the most recent audit period, the program did not have any of the following:
  - Internal control deficiencies that were identified as material weaknesses in the auditor's report on internal control for major programs.
  - A modified opinion or disclaimer of opinion on the program in the auditor's report on major programs.
  - Known or likely questioned costs that exceed 5% of the total federal awards expended for the program.

### **Additional Risk Considerations**

Under Uniform Guidance, **the auditor is no longer permitted to use judgment to classify a Type A program based on a conclusion about it's inherent risk.** The only criteria the auditor may consider are the following:



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- Oversight exercised by federal agencies and pass-through entities as described in 2 CFR section 200.519(c) (for example, results of recent monitoring or other reviews or indication in the Compliance Supplement that a federal agency has identified a federal program as higher risk).
- The results of audit follow-up.
- Any changes in personnel or systems affecting the program.\*\*

### **\*\* COVID-19 Considerations for Type A programs:**

- **Do not assume that the addition of COVID-19 funding to an existing program alone makes the program automatically high-risk.**
- **The risk assessment criteria for identifying low risk Type A programs have not changed.**
- **New Type-A COVID-19 only programs (e.g. 21.019 and 84.425), are automatically high risk in the first year because they have never been audited.**
- **Existing Type A programs that received COVID-19 funding are evaluated as they normally would be. However, note that the only Type A criteria that allows auditors to consider risk to the program for these first year audits is *changes in personnel or system affecting the program*. Therefore, auditors should consider whether there were any changes in personnel, systems or controls / processes associated with the compliance requirements that are direct and material that would lead to significantly increased risk.**
- **DOCUMENT THE RATIONAL FOR YOUR DECISIONS**

### **Addition of a New Program to an Other Cluster** (see Appendix VII of the Compliance Supplement for examples)

- One of the criteria for an "other cluster" to be considered a low-risk Type A program is that it must have been audited as a major program in at least one of the two most recent audit periods ("2-year look back" under 2 CFR section 200.518(c)(1)). In the year that this Supplement adds a new program to another cluster listed in Part 5, the determination of whether the resulting other cluster meets the 2-year look back criterion **requires additional consideration. During that year, the other cluster cannot qualify as having been audited as a major program in one of the two most recent audit periods unless the auditee's current-year expenditures for the newly added program were less than or equal to twenty-five percent (0.25) of the Type A threshold, or all of the programs included in the resulting other cluster met the "2-year look back" criterion.** The additional criteria in 2 CFR section 200.518(c) must also be evaluated by the auditor to determine if the other cluster can be considered a low-risk Type A program in the current year.
- In years after this Supplement adds a program to another cluster, such addition in a prior year does not require additional consideration for the 2-year look back criterion.

### **Type B risk criteria:**

Perform risk assessments on Type B programs, **one at a time**, until high-risk Type B programs have been identified up to at least 25% (rounding up) of the number of low risk Type A programs. For example:

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Number of low-risk Type A programs	Minimum identified High Risk Type B programs
0	0
1-4	1
5-8	2
9-12	3

When the required number of high risk Type B programs is identified (as calculated above), **STOP** performing risk assessments. (If you continue to document identification of high risk programs, the federal OIG community expects them to be audited.)

If the prior audit of the program had a material weakness in internal control or compliance problems, the program should be considered high-risk; otherwise, a single criteria in risk would seldom cause a Type B program to be considered high-risk. \*\* The Uniform Guidance encourages auditors to use an approach which provides an opportunity for different high-risk Type B programs to be audited as a major program over time.

Each column will require a “yes” or “no” answer. You will need to gather data about each program to make these decisions. **Read the comment box found in each column to identify the types of information that you will need to assist you in making the assessment.** The source of the information for each risk factor varies and could come from: prior year workpapers; audit reports; management letters; inquiry of the grantee; inquiry of the grantor agency (or pass-through agency); brainstorming with other auditors; input from the SAO single audit specialist, etc. The “auditor notes” column included at the end of each row in the spreadsheet is available for you to add the rationale for your risk assessment.

Fraud risk column – Consider whether there are any known or perceived risks of material noncompliance due to fraud in each Type A and B included in the spreadsheet (e.g., misappropriation of federal assets, intentionally misreporting financial or program information to the grantor, false client eligibility determinations, etc.). If you determine there is a risk of material noncompliance due to fraud, be sure to identify the specific compliance requirement that is susceptible to fraud in the Auditor Notes column of the spreadsheet (e.g., Activities Allowed, Eligibility, Equipment, Reporting, etc.).

### **\*\*COVID-19 Funding Considerations**

- The risk assessment criteria for identifying high-risk Type Bs have not changed
- If you are assessing the risk of a new Type B COVID-19 only program, or an existing Type B program that received COVID-19 funding, the only Type B criteria that allows auditors to consider risk to the program during these first year audits is inherent risk. Consideration should be given to:

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- **The complexity of the program and the extent to which the federal program contracts for goods/services.** For example, federal programs that disburse funds through third party contracts; or have eligibility criteria; or **new/revised program regulations**.
- **The phase of the program cycle** (beginning or end of the program at the grantor or auditee) may increase risk. For example, **new programs (first year)** at an entity or closeout of programs (last year) may indicate higher risk.
- **The amount of expenditures.** Type B programs with **larger federal awards expended** would be of higher risk than programs with substantially smaller federal awards expended.
- **DOCUMENT THE RATIONAL FOR YOUR DECISIONS**

### **Extra Columns - Transition Considerations in a Uniform Guidance Audit:**

Per Part 3 of the 2020 Compliance Supplement: The Office of Management and Budget considers the transition to the Uniform Guidance 2 CFR part 200 completed, as it is applicable to all federal awards made on or after December 26, 2014, so they removed the "Transition to 2 CFR part 200" section and the Part 3.1 – federal awards made prior to December 26, 2014, from the 2020 Compliance Supplement (Part 3.1 contained the pre-Uniform Guidance administrative requirements found in Circular A-102 and the cost principles found in Circular A-87). On the rare occasions that auditors are reviewing activities for federal awards made prior to December 26, 2014, the 2019 Compliance Supplement should be used for guidance. In other words, for awards subject to the pre-Uniform Guidance Circulars, follow Part 3.1 of the revised 2019 Compliance Supplement). Contact the Single Audit Specialist with any questions.

### **Step 5(b). Brainstorm Fraud Risks**

Based on your results from Step 5(a) above, discuss any risks of material noncompliance due to fraud with your supervisor. This discussion should take place before the auditor begins work on any major programs and should be documented in the ROWD.

**IMPORTANT:** Although a risk of noncompliance due to fraud may exist in a particular program, this risk does not require the program to be selected as a major program.

**Step 6.** Select the programs to audit and specify in the "selection description" cell of the spreadsheet the option you used for making the selection. The programs you select for audit are called "major programs" no matter if they are a Type A or Type B. At a minimum, you must audit all of the following as major programs:

- All high-risk Type A programs.
- All High-risk Type B programs.
- Programs to be audited as major programs based on a federal agency or pass-through entity request (in lieu of the federal agency or pass-through entity conducting or arranging for additional audits or other procedures).
- Such additional programs as may be necessary to comply with the 40% rule (or 20% rule). At this point, you can select from among all remaining low risk Type A programs and any Type B programs to meet the required coverage.

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**Step 7.** Select Major Program Testing Strategies from SAOStore. If a specific program is not available, use the Standard Program-Local and customize this as needed. In order to import more than one Standard Program to a TeamMate file, the standard program folder within the audit must be renamed before getting the next program.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

The Office of Management and Budget (OMB) Uniform Guidance requires a risk-based approach to identify major federal programs for audit. This risk-based approach involves specific steps that must be followed to meet audit requirements, see audit SAO Audit Policy 5210.

### **SAO Audit Policy [5210](#) – Planning Single Audits**

#### **[Single Audits under Uniform Guidance](#) Planning Guide**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

Single Audit Act Amendments of 1996

### **Title 2 U.S. Code of Federal Regulations Part 200 ([2 CFR §200](#)) - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)**

OMB Circular A-133 – Audits of States, Local Governments, and Non-Profit Organizations

Record of Work Done:

First, we determined which programs were classified as Type A and Type B. We then performed risk assessments for the Type A and Type B programs as applicable.

Fraud Brainstorm: On 10/25/2021, my supervisor and I discussed whether there are any known or perceived risks of material noncompliance due to fraud with any compliance requirements for Type A and Type B programs. Any risks will be considered when we audit the major program.

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Based on the work documented on the attached spreadsheet, the following are major programs for the current audit (we obtained the audit programs from the SAOStore):

Program Title - CFDA Number

- Assistance to Firefighters Grant - CFDA no. 97.044 - Assistance to Firefighters Grant - 97.044

### B.4.PRG - Single Audit Planning

**Procedure Step:** Prior Findings (if applicable)

**Prepared By:** TLJ, 10/19/2021

**Reviewed By:** HVB, 10/21/2021

Purpose/Conclusion.

**Purpose:**

To document our plans to audit an entity's follow-up procedures on prior audit findings on federal programs (whether they are major programs or not).

**Conclusion:**

Not Applicable - no prior audit findings.

Testing Strategy.

Perform the following steps if the auditee has any federal findings that will be listed in the summary schedule of prior audit findings.

**The auditor must perform audit follow-up procedures regardless of whether a prior audit finding pertains to a major program in the current year or whether it pertains to a non-major program.**

1. Obtain the template for the Schedule of Prior Federal Findings. You must obtain this template manually, which is available in the store under the Audit Administration cabinet | Audit Wrap Up | Template – Prior Audit Findings (the Federal Finding portion is on the second page). The auditee is responsible for preparing two sections of the federal schedule: "Status of Corrective Action" and a description of "Corrective Action"

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Taken". The other sections are prepared by you. Our objective is to follow-up on the finding to make sure the information prepared by the auditee is accurate. (For more detailed instructions about the template, please refer to the SAO Audit Reporting Standards Manual, Pt. 5, Ch. 5.)

2. After you enter the auditor-required information of the template for each prior federal finding, provide the auditee with either an electronic copy or a hard copy of the schedule so that it can provide the information for its sections.

3. If the prior year issue pertains to a grant that is a **major program in the current audit**, incorporate your follow-up work in the Record of Work Done for the applicable compliance area of that program. Because it's a major program, you will be performing both internal control testing and compliance testing and should report any exceptions based on your assessment of their materiality. Also, compare the results of your follow-up work with the status of corrective action listed by the auditee in the summary of prior audit findings.

If the grant is a **major program** in the current audit, but the compliance requirement is **no longer subject to audit** per the Compliance Supplement, you must perform follow-up procedures, but you are not required to perform internal control or compliance testing. In this case, perform follow-up procedures as if the program was a non-major (see step 4 below). You will need to modify the rowd to explain the situation.

4. If the prior year issue pertains to a grant that is a **non-major program and not being audited**, determine the extent of corrective action taken by the auditee and compare this with the status that the auditee reports on its summary schedule of prior audit findings. The auditor is not required to perform audit procedures; therefore the auditor will normally not find questioned costs for a program that is not audited as a major program. However, if the auditor does become aware of questioned costs for a federal program that is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$25,000, then the audit must report this as an audit finding. We should not expect that corrective action will be complete for every finding, and we do not have to re-report internal control weaknesses or compliance for non-major programs unless you become aware of questioned costs exceeding \$25,000 (which should be reported as a finding). You can document your work for non-major programs in the Record of Work Done under the step located at CONCLUDING SINGLE AUDIT PROCEDURES / STATUS OF PRIOR FEDERAL FINDINGS.

5. After the single audit is complete, go to the record of work done under CONCLUDING SINGLE AUDIT PROCEDURES / PRIOR FEDERAL FINDINGS and compare the results of your follow-up work (step 3 and/or 4 above) with the status of corrective action listed by the auditee in the Summary Schedule of Prior Audit Findings to ensure the information supplied by the auditee is accurate.

Guidance/Criteria.\*

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [3410](#) – Follow Up on Previous Audits**

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## SAO Audit Policy [5210](#) – Planning Single Audits

### [Single Audits under Uniform Guidance](#) Planning Guide

#### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

#### **Title 2 U.S. Code of Federal Regulations Part 200 ([2 CFR §200](#)) - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)**

- **2 CFR 200.514(e)** - states that the **auditor** must follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor must perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.
- **2 CFR 200.511(a)** - also states that the **auditee** is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings (see instructions for preparing the summary schedule of prior audit findings are located under Single Audit - Wrap-up).

Record of Work Done:

Not Applicable - no prior audit findings.

#### **B.4.PRG - Single Audit Planning**

*Procedure Step:* SA Entrance Conference

*Prepared By:* TLJ, 10/27/2021

*Reviewed By:* HVB, 10/27/2021

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Purpose/Conclusion.:

**Purpose / Conclusion:**

To communicate our audit responsibilities and the planned scope and timing of the audit to management and the governing body.

Testing Strategy.:

Typically communication of our planned single audit occurs at the financial statement entrance conference, which is documented in a separate step. Auditors should ensure that the required single audit communications (as included in the entrance conference template) are covered at this conference.

**If no entrance conference was held, explain the situation in the record of work done and the Entrance Conference Explanation Field in the custom tab in the profile. The explanation must include a description of how the required information above was communicated to the entity and those charged with governance.**

**If a separate entrance conference is held to communicate about the single audit, auditors must document invitations, conference date, attendees and discussion topics (see the financial statement entrance conference step for detailed instructions).**

Guidance/Criteria.:

**ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [2130](#) - Inviting Officials to Entrance and Exit Conferences**

**SAO Audit Policy [2210](#) - Conducting Entrance Conferences**

**[Single Audits under Uniform Guidance](#) Planning Guide**

Record of Work Done.:

See FS Entrance Conference step at [[FS Entrance Conference](#)].

**C.1.PR.G - Baseline Testing**



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**Procedure Step:** Cash Flow Reconciliation

**Prepared By:** TLJ, 12/28/2021

**Reviewed By:** AMS, 3/4/2022

Purpose/Conclusion:

**Purpose:**

To reconcile reported beginning cash balance, revenues, expenditures and ending cash balance to bank statements.

**Conclusion:**

We reconciled reported beginning cash balance, revenues, expenditures and ending cash balance to bank statements and noted **the following** errors:

- **2019:**
  - Total miscellaneous revenues (360) and ending cash and investments are understated on the Statement C4 by \$16,533. Per the GL, total miscellaneous revenues should be \$233,566.
- **2020:**
  - We could not reconcile beginning cash and investments to within our expectations (exactly). There is a difference of approximately \$3,612 between the auditor's expectation of total beginning cash and investments and actual beginning cash and investments reported in the financial statements (overstatement).
  - We could not reconcile revenues/non-revenues to cash deposits to within our expectations (1% or \$134,175). There is a difference of approximately \$218,203 between the auditor's expectation of total revenues and actual revenues reported in the financial statements (understatement).
  - We could not reconcile expenditures/non-expenditures to cash withdrawals to within our expectations (1% or 119,045). There is a difference of approximately \$232,340 between the auditor's expectation of total expenditures and actual expenditures reported in the financial statements (understatement).
  - We could not reconcile ending cash and investments to within our expectations (\$2,000 floor). There is a difference of approximately \$491 between the auditor's expectation of total ending cash and investments and actual ending cash and investments reported in the financial statements (overstatement).

We added these errors to the aggregation of misstatements [[Aggregation of Misstatements \(BARS Cash\)](#)]. We will evaluate these errors here: [LOR Summary](#) and issue a recommendation here: [Financial statement preparation](#).

Testing Strategy:

To perform the cash flow reconciliation, auditors are **required** to perform the following procedures:

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**Step 1:** Obtain copies of all County Treasurer, bank and investment accounts for the period - including any clearing funds, transmittal accounts or other zero-balance accounts.

**For governments that act as their own treasurer,** auditors will need to gain an understanding of the government's banking and reconciliation practices in order to most efficiently and effectively perform the cash flow reconciliation:

- For each bank account, inquire as to the nature of revenues (original receipts or transfers from another account) and expenditures (original disbursements or transfers to another account).
- Compare current year accounts to the prior audit and confirm any account closures. Inquire of appropriate entity personnel as to when the account was closed, and the reason for closing the account (which may indicate the opening of other new accounts). To verify, obtain final bank statement showing zero balance and any correspondence from the bank confirming the account closure.

**Consider** additional inquiry or analysis procedures to gain a further understanding or follow-up on bank accounts or accounting practices.

**Step 2:** Input confirmed amounts from the bank statements or County Treasurer reports on the Input tab of the Cash Flow Reconciliation spreadsheet. Also input reconciling item figures from the government's year-end reconciliation.

- For governments that act as their own treasurer (such as cities or counties), use the "Cash Flow Reconciliation (Bank)" version.
- For governments that use the County as their treasurer, use the "Cash Flow Reconciliation (County Treasurer)" version.
- Compare bank flows and reconciling items to the prior year's reconciliation to identify any significant differences or changes. Consider following up on these changes with inquiry or other procedures as needed to confirm.

*During input, auditors should be alert for red flags - such as possible alterations of the bank statements, cash or money order withdrawals, unusual EFTs or activity patterns, large or unexpected changes in reconciling items from the previous year, or unexpectedly high or unusual reconciling items. If red flags for reconciling items indicate a risk that requires significant follow-up procedures, auditors may identify the area as an Additional Risk in the plan in order to more easily plan and perform targeted testing in a separate step.*

**Step 3:** Formulate a range (amount or percentage) of expected variance between reported revenues, expenditures and the reconciled amount. This range is **not** a materiality determination – this is an expectation of the approximate amount of valid reconciling items that, for efficiency purposes, the auditor did not determine.

*It is reasonable to expect a small variance due to potential reconciling items that the auditor decided not to identify (such as NSF checks or corrections of error where money was receipted and then refunded, which are expected to be very small and therefore are not cost-effective*

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*to identify).*

**Step 4:** Enter financial statement figures and compare to expected amounts. Any variance outside the expected range is a likely misstatement that is then compared to the materiality floor for aggregation purposes.

*For entities using the County Treasurer, the auditor should also check the classification of amounts between funds.*

**Consider** follow up procedures on variances outside the expected range that are above the floor.

*Auditors may consider differences from expectations to be likely misstatements or may decide to do additional work or request that the client do additional work to either confirm misstatements or identify additional reconciling items that were initially passed. Potential follow up procedures are as follows:*

- *Finish agreeing the financial statements to the general ledger in the “[Agree Statements to Accounting Records](#)” step.*
- *If ending cash is off, compare to the entity’s own reconciliation of ending cash.*
- *For Cities and Counties, check figures against Schedule 6.*
- *Double-check data entry of bank or county treasurer activity and that all bank statements were obtained.*
- *If the entity reconciles cash flows to the bank statement each month, check the reconciling items in the comparison of cash receipts to recorded revenues and cash disbursements to recorded expenditures. Also consider checking the revenue/expenditure totals used in the reconciliation to the GL – differences may arise if the entity has back-dated transactions or made mistakes.*
- *Search for journal vouchers that debit and credit cash. This may reveal interfund transfers or transactions that did not have a corresponding revenue and expenditure recorded.*
- *Search for journal vouchers that record negative expenses or negative revenues. This may reveal either misstatements or valid netting of revenue and expenditures that would be a reconciling item.*
- *Search for warrants issued that debit a non-expense account or that credit an account other than cash. This may reveal misstatements or valid netting of revenue and expenditures that would be a reconciling item.*

Guidance/Criteria.*
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**[LGIP Fund Summary Reports](#)** - includes a list of local government accounts and balances in the Local Government Investment Pool

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## **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**BARS [3.1.7.40](#) Basis of Accounting (Cash)** - defines the basis of accounting

**BARS [3.1.9](#) Bank Reconciliations (Cash)** - describes accounting and control requirements related to bank reconciliations

**BARS [3.6.11.20](#) Suspense Funds Accounting**- describes accounting for suspense funds

**BARS [3.8.6](#) Use of Payroll and Claim Funds** - describes accounting for clearing funds

**BARS [3.8.8](#) Imprest, Petty Cash and Other Revolving Funds** - describes accounting for imprest, petty cash and change funds

Record of Work Done.:

## **Review of Statements and Reconciliations:**

We obtained statements for each bank or county treasurer account for each month of the period and input figures for each account on the attached spreadsheet. We also obtained prior year figures from the prior audit Teammate file as well as general ledger detail, monthly bank reconciliations, and a listing of revolving funds from Steve Austin, Clerk Treasurer. We used this information to input reconciling item figures on the attached spreadsheets. See reconciliations at:

- **2019** - [Cash Flow Reconciliation \(Bank\) - 2019](#)
- **2020** - [Cash Flow Reconciliation \(Bank\) - 2020](#)

During our review and input of statements, we were alert for any unusual transactions, accounts or patterns. We noted **no** concerns.

As part of obtaining the statements and reconciliations, we also inquired with Clerk/Treasurer Steve Austin regarding banking and reconciliation practices. We also compared accounts, activity and reconciling items to prior year audited amounts and considered this information in relation to our understanding of the entity, its activities and changes. We noted no concerns regarding the completeness and accuracy of accounts and reconciling items.

## **Expectations:**

Based on auditor judgment and considering both the nature of the government's transactions and the planned level of work to identify potential reconciling items:

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- We expect that reported **beginning cash** should **match exactly** to the prior year financial statements (after any differences in rounding conventions between years).
- We expect to be able to reconcile reported **revenues/non-revenues** to cash deposits to within **1%**.
- We expect to be able to reconcile reported **expenditures/non-expenditures** to cash withdrawals to within **1%**.
- We expect that reported **ending cash** should reconcile to ending balances per bank/treasurer statements to **within \$2,000 (floor)**.

### **Reconciliation Results:**

We performed our 2019 cash flow reconciliation here Cash Flow Reconciliation (Bank) - 2019 and the results are as follows:

- **Beginning cash and investments balance:** Reported beginning cash agrees to the prior year financial statements (after any differences in rounding conventions between years).
- **Revenues (fund resources arising from cash transactions):** We reconciled revenues/non-revenues to cash deposits to within 1%. However, we noted total miscellaneous revenues (360) is understated on the Statement C4 by \$16,533. Per the GL, total miscellaneous revenues should be \$233,566.
- **Expenditures (fund uses arising from cash transactions):** We reconciled expenditures/non-expenditures to cash withdrawals to within 1%. No issues noted.
- **Ending cash and investments balance:** The total ending cash and investments reported on the Statement C4 (\$9,418,121) does not tie to the bank statements and reconciling items between the bank and financial statements (\$9,434,550). We noted total miscellaneous revenues (360) and ending cash and investments are understated on the Statement C4 by \$16,533. Per the GL, total miscellaneous revenues should be \$233,566. We added this error to the aggregation [Aggregation of Misstatements (BARS Cash)]. We met with Steve to follow up on the misstatements. He provided us with the December 2019 cash reconciliation from Vision [PBC: Reconciliation Activity DECEMBER 2019]. We noted that all ending balances in the reconciliation agreed to the amounts in our cash flow reconciliation and the misstatement continues to exist.

We performed our 2020 cash flow reconciliation here Cash Flow Reconciliation (Bank) - 2020 and the results are as follows:

- **Beginning cash and investments balance:** The total beginning cash and investments reported on the Statement C4 (\$9,438,266) does not tie to the prior year bank statements and reconciling items between the bank and financial statements (\$9,434,550). As noted in the 2019 cash reconciliation, total miscellaneous revenues (360) and ending cash and investments are understated on the Statement C4 by \$16,533. Per the GL, total miscellaneous revenues should be \$233,566. This was corrected by the City in 2020. There remains a difference of approximately \$3,612 between our expectation of total beginning cash and investments and actual cash and investments reported in the financial statements (overstatement). We added this error to the aggregation [Aggregation of Misstatements (BARS Cash)].
- **Revenues (fund resources arising from cash transactions):** We could not reconcile revenues/non-revenues to cash deposits to within our expectations (1% or \$134,175). There is a difference of approximately \$218,203 between the auditor's expectation of total

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revenues and actual revenues reported in the financial statements (understatement). We added this error to the aggregation [Aggregation of Misstatements (BARS Cash)].

- **Expenditures (fund uses arising from cash transactions):** We could not reconcile expenditures/non-expenditures to cash withdrawals to within our expectations (1% or 119,045). There is a difference of approximately \$232,340 between the auditor's expectation of total expenditures and actual expenditures reported in the financial statements (understatement). We added this error to the aggregation [Aggregation of Misstatements (BARS Cash)].
- **Ending cash and investments balance:** We could not reconcile ending cash and investments to within our expectations (\$2,000 floor). There is a difference of approximately \$491 between the auditor's expectation of total ending cash and investments and actual ending cash and investments reported in the financial statements (overstatement). We added this error to the aggregation [Aggregation of Misstatements (BARS Cash)]. We met with Steve to follow up on the misstatements. He provided us with the December 2020 cash reconciliation from Vision [PBC: Reconciliation Activity DECEMBER 2020]. We noted that all ending balances in the reconciliation agreed to the amounts in our cash flow reconciliation and the misstatement continues to exist.

We will also assess the issue at [LOR Summary] and issue a recommendation at [Financial statement preparation].

### C.1.PRG - Baseline Testing

*Procedure Step:* Yellow Flag Report

*Prepared By:* TLJ, 11/3/2021

*Reviewed By:* AMS, 3/4/2022

Purpose/Conclusion.\*

#### **Purpose:**

To follow up on automated edit checks and conclude on any known or likely misstatements.

#### **Conclusion:**

We noted **the following** errors in the Yellow Flag reports:

- 2020 beginning fund balances do not tie to 2019 ending fund balances, which resulted in a variance of \$20,145. We will follow up on this error as part of the cash flow reconciliation [Cash Flow Reconciliation].

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- The due date for PWTF Loan PC 12-951-035 changed from 6/1/2021 in 2019 to 6/1/2041 in 2020. We will follow up on this change as part of review presentation and disclosure [[SI and OI](#)].
- The City overreported Multimodal Transportation - Cities (BARS 3360071) by \$11,170 and underreported Motor Vehicle Fuel Tax - City Streets (BARS 3360087) by \$11,170 due to a misclassification error. The error does not have an effect on the Statement C-4. However, we communicated the error to Steve Austin, Clerk Treasurer to consider correcting the Schedule 01.
- The City overreported Multimodal Transportation - Cities (BARS 3360071) by \$10,349 and underreported Motor Vehicle Fuel Tax - City Streets (BARS 3360087) by \$10,350 due to a misclassification error. The error does not have an effect on the Statement C-4. However, we communicated the error to Steve Austin, Clerk Treasurer to consider correcting the Schedule 01.

### Testing Strategy:

To follow up on automated edit checks, auditors are **required** to review the Yellow Flag Report in LGCS and follow up on all significant variances. *Yellow flags are indicators of potential misstatements, so auditors cannot assume they are misstatements until follow-up work is performed. Auditors need only follow up on significant yellow flags. We would expect governments to be aware of yellow flags (which are displayed as part of the annual report filing process) and be prepared to explain how they considered the flags and determined the reported amount was correct.*

*If yellow flags indicate a risk that requires significant follow-up procedures, auditors may identify the area as an Additional Risk in the plan in order to more easily plan and perform targeted testing in a separate step.*

### Guidance/Criteria:

### Record of Work Done:

#### **Edit Checks**

We reviewed the LGCS Yellow Flag report to evaluate the results of automated edit checks on the accuracy of data underlying the financial statement and schedules. As detailed in [[Yellow Flag Report \(2019 and 2020\)](#)]. Results are as follows:

- **2019:** We noted only immaterial variances and will pass on further review.
- **2020:** We noted **the following** errors:
  - 2020 beginning fund balances do not tie to 2019 ending fund balances, which resulted in a variance of \$20,145. We will follow up on this error as part of the cash flow reconciliation [[Cash Flow Reconciliation](#)].

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- The due date for PWTF Loan PC 12-951-035 changed from 6/1/2021 in 2019 to 6/1/2041 in 2020. We will follow up on this change as part of review presentation and disclosure [SI and OI].

### **Confirmation of State Treasurer Distributions**

**2019:** We also reviewed the LGCS Yellow Flag report for confirmations of certain revenues distributed to the government by the Office of State Treasurer. This test represents a third-party confirmation to OST reported amounts covering all assertions (existence, completeness, rights & obligations, valuation and classification) for these revenues which represent 27.5% of total reported revenues on the C4 Statement. As detailed in [Yellow Flag Report (2019 and 2020)], we found no variances outside our expectations (within 2%). However, the City overreported Multimodal Transportation - Cities (BARS 3360071) by \$11,170 and underreported Motor Vehicle Fuel Tax - City Streets (BARS 3360087) by \$11,170 due to a misclassification error. The error does not have an effect on the Statement C-4. However, we communicated the error to Steve Austin, Clerk Treasurer to consider correcting the Schedule 01.

**2020:** We also reviewed the LGCS Yellow Flag report for confirmations of certain revenues distributed to the government by the Office of State Treasurer. This test represents a third-party confirmation to OST reported amounts covering all assertions (existence, completeness, rights & obligations, valuation and classification) for these revenues which represent 30.6% of total reported revenues on the C4 Statement. As detailed in [Yellow Flag Report (2019 and 2020)], we found no variances outside our expectations (within 2%). However, the City overreported Multimodal Transportation - Cities (BARS 3360071) by \$10,349 and underreported Motor Vehicle Fuel Tax - City Streets (BARS 3360087) by \$10,350 due to a misclassification error. The error does not have an effect on the Statement C-4. However, we communicated the error to Steve Austin, Clerk Treasurer to consider correcting the Schedule 01.

### **C.1.PRG - Baseline Testing**

*Procedure Step:* Pension Liability

*Prepared By:* TLJ, 11/3/2021

*Reviewed By:* AMS, 3/4/2022

Purpose/Conclusion:

#### **Purpose:**

To confirm pension liability reporting on Schedule 9 and disclosures.



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### **Conclusion:**

We determined:

- The 2019 and 2020 Schedule 9 does correctly report the pension liability. We noted the following trivial errors for both 2019 and 2020 were communicated to Steve Austin, Clerk Treasurer, but were not included on the aggregation of misstatements:
- Pension notes
- 2019:
  - Allocation % for PERS 1 should be "0.011766%".
  - Liability for PERS 1 should be "\$452,444" - variance of \$770
  - "PERS, LEOFF" should be disclosed as "Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)".
  - Remove "0" from "p0lan".
- 2020:
  - "PERS, LEOFF" should be disclosed as "Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)".
  - Remove "0" from "plan".

### Schedule of Liabilities

- 2019:
  - Reductions in pension liabilities is understated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1. The ending pension liability for PERS 1 should be \$452,444 instead of \$453,214. Reductions should be \$114,944.
  - Ending pension liabilities is overstated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1. The ending pension liability for PERS 1 should be \$452,444 instead of \$453,214. The ending balance should be \$600,010.
- 2020:
  - Beginning pension liabilities is overstated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1 in 2019. The beginning balance should be \$600,010.
  - Reductions in pension liabilities is overstated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1 in 2019. Reductions should be \$176,854.

### Testing Strategy:

The following procedures are **required** to determine whether pension amounts are correctly reported:

#### **STEP 1: Determine the type of pension plan(s) in which the employer participates**

**Defined Contribution plans:** Contact the Pension / OPEB specialist if the government offers a defined contribution pension plan to determine

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whether any disclosures would be considered necessary for fair presentation. See the cash-basis BARS Manual, Note X-Pension Plans.

There are no pension liabilities to report on Schedule 9; therefore *no further work is necessary for Defined Contribution plans.*

**Defined Benefit plans:** cash basis entities are required to disclose and report on Schedule 9 their participation in state-sponsored and any single-employer plans.

- State sponsored cost-sharing, multiple-employer plans:
- Public Employees Retirement System (PERS) plans 1, and 2/3
- School Employees Retirement System (SERS) plan 2/3
- Teachers Retirement System (TRS) plans 1, and 2/3
- Public Safety Employees Retirement System (PSERS) plan 2
- Law Enforcement Officers and Fire Fighters' Retirement System (LEOFF) plans 1, and 2
- Volunteer Fire Fighters and Reserve Officers Retirement System (VFFRPF)

The above plans are administered by the Department of Retirement Systems (DRS), except for VFFRPF, which is administered by the Board for Volunteer Firefighters and Reserve Officers ([www.bvff.wa.gov](http://www.bvff.wa.gov)).

- Single-employer plans: Police and Firefighter plans in existence before state plans were established. These are closed plans with no active members and administered primarily by cities.

### **STEP 2 [Only for State sponsored plans]: Reference central work and get figures from PEFI**

- Reference Central Work – see the ROWD for our central analysis.
- Use the attached spreadsheet to obtain allocation percentages from the PEFI and calculate pension amounts for the employer.

***Which measurement date do I use?*** *The earliest measurement date that can be used by an employer is 12 months earlier than the reporting date.*

Earliest Available Valuation Date	Earliest Available Measurement Date Employer Can Use	Employer Reporting Date
6/30/2018	6/30/2019	6/30/2020
6/30/2019	6/30/2020	8/31/2020

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6/30/2019	6/30/2020	12/31/2020
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- Therefore, local governments with a reporting date of 6/30/20 can use **either** the 6/30/19 **or** 6/30/20 schedules for their year-end balances. Due to timing of the publication of the PEFI reports, most local governments with a 6/30/20 year end elected to use the 6/30/19 report,
- Local governments with a reporting date of 12/31/20 should use the 6/30/20 schedules for their year-end balances.

### **STEP 3 [Only for State sponsored plans]: Compare amount reported on Schedule 9 with recalculated amounts from the PEFI**

- Employers have a responsibility to exercise due care in financial reporting by verifying and recalculating amounts specific to them. Employers should use the DRS eServices Contribution Reconciliation System to verify the reasonableness of contributions used in the calculation of their proportionate share. Review the employer's supporting documentation for this verification.
- Using the attached spreadsheet for the appropriate fiscal year end from Step 2, test the mathematical accuracy of the calculation of the net pension liability reported on Schedule 9 using the Schedules of Collective Pension Amounts in the PEFI. See the "INPUT" and "Cash-Basis-Summary" tabs.  
*Local governments should report last year's beginning balance, this year's ending balance, and a single addition or deduction for the net change on Schedule 9.*
- VFFRPF - The pension asset amounts for each participating employer are published on the Board's website at [www.bvff.wa.gov](http://www.bvff.wa.gov).

### **STEP 4 [For single-employer (local) plans]: Trace pension amounts reported in Schedule 9 to supporting evidence**

- Trace the amount reported on the Schedule 9 to the most recent actuarial valuation report.
- If financial statements are based on OUTDATED or NO actuarial report, auditors should document a likely misstatement. If any understatement of the liability is not expected to be significant (based on consideration of pension assets, number of participants and their age), auditors do not need to quantify the potential misstatement. If the misstatement may be significant, auditors could conservatively quantify a ceiling for the misstatement by projecting the cash flows for the current year for all remaining participants to age 95. Contact TAS for assistance in evaluating materiality, if needed.
- If selected as an area for testing, auditors would test by completing the "Rely on Specialist" procedures in TeamMate. In doing so, auditors should include evaluation of the discount rate as a key assumption with a significant expected effect on the pension liability and test the accuracy of census data provided to the actuary.

### **STEP 5 [For all defined benefit plans]: Review note disclosures for accuracy and completeness**

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Compare the pension note disclosure to the sample cash-basis pension note in the [BARS Manual](#) for minimum required disclosures.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

[GASB 68 Implementation & Auditing](#) - SAO self-study training

[GASB 68 Pensions - Year 2](#) - SAO self-study training

[Pension and OPEB](#) Area Guide

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**BARS 3.4.13 Pension Liabilities** - contains guidance on reporting pensions.

Record of Work Done:

### **STEP 1: Determine the type of pension plan(s) in which the employer participates**

**Defined Contribution plans:** The City does not offer a defined contribution pension plan. There are no pension liabilities to report on Schedule 9; therefore *no further work is necessary for Defined Contribution plans.*

**Defined Benefit plans:** Cash basis entities are required to disclose and report on Schedule 9 their participation in state-sponsored and any single-employer plans. The County's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer plans:

- Public Employees Retirement System (PERS) plans 1, and 2/3
- Public Safety Employees Retirement System (PSERS) plan 2
- Law Enforcement Officers and Fire Fighters' Retirement System (LEOFF) plans 1, and 2
- Volunteer Fire Fighters and Reserve Police Officers Relief and Pension Fund (VFFRPF)

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### STEP 2 [Only for State sponsored plans]: Reference central work and obtain figures from PEFI

- Reference Central Work  
SAO centrally reviews the CPA audit of the Department of Retirement Systems (DRS) and other support for the actuarial valuation (AAG-SLV 13.187.a-e and h-j) as part of the State ACFR audit – that work is documented in the related audit file.
- Obtain figures from PEFI  
We used the attached spreadsheets to obtain the 2019 and 2020 allocation percentages from the PEFI. See "2019-PEFI" tab here [[GASB 68 Testing – FYE 12-31-2019 \(Cash-Basis Only\)](#)] and "2020-PEFI" tab here [[GASB 68 Testing – FYE 12-31-2020 \(Cash-Basis Only\)](#)].

Year	Plan	Organization Identification Number	Organization Name	Published Allocation Percentage	Allocation Percentage
2019	PERS1	0154	Clarkston City of	0.011766%	0.011766%
2019	PERS23	0154	Clarkston City of	0.015192%	0.015192%
2019	LEOFF1	0154	Clarkston City of	0.013430%	0.013430%
2019	LEOFF2	0154	Clarkston City of	0.058260%	0.058260%
2020	LEOFF1	0154	Clarkston City of	0.013645%	0.013645%
2020	LEOFF2	0154	Clarkston City of	0.055274%	0.055274%
2020	PERS1	0154	Clarkston City of	0.008099%	0.008099%
2020	PERS23	0154	Clarkston City of	0.010729%	0.010729%

### STEP 3 [Only for State sponsored plans]: Compare amount reported on Schedule 9 with recalculated amounts from the PEFI

- Employers have a responsibility to exercise due care in financial reporting by verifying and recalculating amounts specific to them. Employers should use the DRS eServices Contribution Reconciliation System to verify the reasonableness of contributions used in the calculation of their proportionate share. Review the employer's supporting documentation for this verification.  
The City does not use the DRS eServices reconciliation, however Clerk Treasurer, Steve Austin, compares the City's calculated contributions to what DRS calculates on a monthly basis to ensure it matches before submission and payment. Documentation is maintained with the payroll files for the month.
- Using the attached spreadsheet for the appropriate fiscal year end from Step 2, test the mathematical accuracy of the calculation of the net pension liability reported on Schedule 9 using the Schedules of Collective Pension Amounts in the PEFI. See the "INPUT" and "Cash-Basis-Summary" tabs. *Local governments should report last year's beginning balance, this year's ending balance, and a single addition or deduction for the net change on Schedule 9.*

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We used the attached spreadsheets (See "Cash-basis-Summary" tab here: [GASB 68 Testing – FYE 12-31-2019 \(Cash-Basis Only\)](#) and [GASB 68 Testing – FYE 12-31-2020 \(Cash-Basis Only\)](#)) for the appropriate fiscal year ends (12/31/2019 and 12/31/2020). We tested the mathematical accuracy of the calculation of the net pension liability reported on Schedule 9 using the Schedules of Collective Pension Amounts in the PEFI. See audit workpaper here [[2019 Schedule 09 Tie Out and Review](#) and [2020 Schedule 09 Tie Out and Review](#)]. Variances are reported in the tables below.

### 2019:

Pension Liability	City Calculation	Auditor Calculation	Variance	Auditor Notes
Beginning Balance	714,954	714,954	-	
Additions	-	-	-	
Reductions	114,174	114,944	(770)	Reductions in pension liabilities is understated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1. The ending pension liability for PERS 1 should be \$452,444 instead of \$453,214. Reductions should be \$114,944.  Disclosure error below floor.
Ending Balance	600,780	600,010	770	Ending pension liabilities is overstated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1. The ending pension liability for PERS 1 should be \$452,444 instead of

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				<p>\$453,214. The ending balance should be \$600,010.</p> <p>Disclosure error below floor.</p>
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### 2020:

Pension Liability	City Calculation	Auditor Calculation	Variance	Auditor Notes
Beginning Balance	600,780	600,010	770	<p>Beginning pension liabilities is overstated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1 in 2019. The beginning balance should be \$600,010.</p> <p>Disclosure error below floor.</p>
Additions	-	-	-	
Reductions	177,624	176,854	770	<p>Reductions in pension liabilities is overstated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1 in 2019. Reductions should be \$176,854.</p> <p>Disclosure error below floor.</p>
Ending Balance	423,156	423,156	-	

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• VFFRPF - The pension asset amounts for each participating employer are published on the Board's website at [www.bvff.wa.gov](http://www.bvff.wa.gov). We tied the City's proportionate share and allocation of the net pension assets to the FY19 and FY20 Proportional Share reports from the [www.bvff.wa.gov](http://www.bvff.wa.gov) website as follows.

### 2019:

Pension Liability	City Calculation	Auditor Calculation	Variance
VFFRFP (Police) - Allocation %	0.06%	0.06%	-
VFFRFP (Police) - Asset	(41,090)	(41,090)	-
VFFRFP (Fire) - Allocation %	0.12%	0.12%	-
VFFRFP (Fire) - Asset	(82,179)	(82,179)	-

### 2020:

Pension Liability	City Calculation	Auditor Calculation	Variance
VFFRFP (Police) - Allocation %	0.06%	0.06%	-
VFFRFP (Police) - Asset	(21,770)	(21,770)	-
VFFRFP (Fire) - Allocation %	0.08%	0.08%	-
VFFRFP (Fire) - Asset	(27,212)	(27,212)	-

#### STEP 4 [For single-employer (local) plans]: Trace pension amounts reported in Schedule 9 to supporting evidence

Step 4 is not applicable. The City does not participate in single-employer (local) plans.

#### STEP 5 [For all defined benefit plans]: Review note disclosures for accuracy and completeness

- Compare the pension note disclosure to the sample cash-basis pension note in the [BARS Manual](#) for minimum required disclosures. We compared the pension note disclosure ((FY2019: Note 06) and (FY2020: Note 06)) to the sample cash-basis pension note in the BARS Manual for minimum required disclosures. See audit workpapers here [2019 Notes to Financial Statements Review](#) & [2020 Notes to Financial Statements Review](#).

In addition, the following trivial errors for both 2019 and 2020 were communicated to Steve Austin, Clerk Treasurer, but were not included on the aggregation of misstatements:

- Pension notes
- 2019:
  - Allocation % for PERS 1 should be "0.011766%".
  - Liability for PERS 1 should be "\$452,444" - variance of \$770



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- "PERS, LEOFF" should be disclosed as "Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)".
  - Remove "0" from "p0lan".
- 2020:
  - "PERS, LEOFF" should be disclosed as "Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)".
  - Remove "0" from "plan".

### **C.1.PRG - Baseline Testing**

*Procedure Step:* OPEB Liability  
*Prepared By:* TLJ, 12/7/2021  
*Reviewed By:* AMS, 3/4/2022

Purpose/Conclusion.
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#### **Purpose:**

To confirm Other Post-Employment Benefits (OPEB) liability reporting on Schedule 9 and disclosures.

#### **Conclusion:**

We determined:

- The Schedule 9 correctly reports the OPEB liability without exception.
- The OPEB notes are accurate and complete, *with the exception of the following:*
  - 2019:
    - The following paragraph is recommended in the year of implementation:  
*During the year ended December 31, 2019, the City adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.*

*We will aggregate this error here: Aggregation of Misstatements (BARS Cash), assess the issues at LOR Summary, and issue a recommendation at Financial statement preparation.*

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### Testing Strategy:

**Alert** – Governments whose employees receive healthcare through the Public Employee’s Benefit Board (PEBB) will have an OPEB liability. Retirees (who have the highest healthcare costs) are able to keep their health insurance at the same total cost – though now pay 100% of that amount (where formerly there was an employer covered portion). Blending these retirees into the pool results in a higher premium for active members and employers. This reduces (subsidizes) the healthcare cost for the retiree and is known as an implicit rate subsidy.

The following procedures are **required** to determine whether OPEB amounts are correctly reported:

### **STEP 1: Determine the type of OPEB plan(s) in which the employer participates**

**Defined Contribution plans:** Defined contribution plans do not result in a liability to be reported on the Schedule 9. Contact the Pension/OPEB specialists if the local government offers a defined contribution OPEB plan to determine whether any disclosures would be considered necessary for fair presentation. *Note: The [BARS Manual](#) has a note disclosure template for OPEB plans, including defined contribution plans.*

**Defined Benefit plans:** The most common OPEB benefits provided by local governments are:

- PEBB – Participating employers in the state’s Public Employees Benefits Board (PEBB) plan provide OPEB through the plan’s implicit and explicit rate subsidies for retirees. Even when retirees pay 100% of their premiums, the employer still has an OPEB liability. See [List of PEBB Member Employers](#).
- LEOFF 1 – Under state law, employers are obligated for lifetime medical expenses of their LEOFF 1 retirees.

The Office of the State Actuary (OSA) provides on-line tools for local governments to calculate their PEBB and LEOFF 1 OPEB liabilities. Local governments are not required to use these tools and may arrange for a valuation with another professional actuary.

The OSA tools can only be used by employers with fewer than 100 plan participants. OSA developed a PEBB tool for the handful of cash-basis local governments with 100+ participants. The tool can be used only by cash-basis local governments who are PEBB member employers. This tool is provided to entities by SAO. Please contact a Pension/OPEB SME if you have questions about these tools.

If the local government provides OPEB through any other plans, or you are uncertain about whether or not an arrangement qualifies as OPEB, please contact the Pension/OPEB specialists.

Complete steps two through five if OPEB plans are identified.

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### STEP 2: Trace OPEB amounts reported in Schedule 9 to supporting evidence

- Trace the amount reported on Schedule 9 to the most recent actuarial valuation report. This could be the OSA on-line tools or another professional actuarial valuation. Actuarial valuations should be performed at least biennially (with amounts rolled forward to the current measurement date) and the valuation date can be no more than 30 months and 1 day prior to the employer's reporting date.
- Our office has worked closely with OSA in the development of the on-line PEBB and LEOFF 1 tools and testing of the tools is not necessary. Auditors should review the accuracy and completeness of census data entered into the tools by the local government or census data provided to an actuary for another professional valuation.
- If amounts are based on OUTDATED or NO actuarial report, auditors should document a likely misstatement. If any understatement of the liability is not expected to be significant (based on consideration of number of participants and their ages), auditors do not need to quantify the potential misstatement. If the misstatement may be significant, auditors could conservatively quantify a ceiling for the misstatement by projecting the cash flows for the current year for all remaining participants to age 95. Contact TAS for assistance in evaluating materiality, if needed.

### STEP 3: Review note disclosures for accuracy and completeness.

Compare the note disclosure to the sample cash-basis OPEB note in the [BARS Manual](#) for minimum required disclosures.

### STEP 4: Additional management representation

As described in the "Letter of Representation" step in TeamMate, auditors are required to consider whether any additional representations need to be obtained beyond the standard representations included in the TeamMate template.

If management used an actuary, add the following representation:

"We considered the qualifications of [actuary or firm] and agree with the conclusions of [actuary or firm] regarding our other post-employment benefits liability, which are reflected in financial statement amounts and disclosures. We have provided [actuary or firm] with accurate and complete information and did not give or cause any instructions to be given to [actuary or firm] with respect to the amounts or assumptions in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the objectivity of [actuary or firm]."

If management used the State Actuary's online tool for either PEBB or LEOFF 1, add the following representation:

"We considered the qualifications of the WA Office of the State Actuary (OSA) to create an electronic tool for determining the [govt type]'s liability for (PEBB / LEOFF 1) other post-employment benefits (OPEB) under the GASB 75 alternative method and agree with the results of the electronic tool, which are reflected in financial statement amounts and disclosures. In using the tool, we input correct and complete

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information into the electronic spreadsheet, and did not enter any inaccurate information with respect to the amounts or assumptions, or modify cells in the OSA spreadsheet, in an attempt to change the outcome of the calculation. Further, we are not aware of any other external matters that would have had an impact on the appropriateness of using the alternative method or assumptions used by the OSA's tool. We confirm that we are a (PEBB / LEOFF 1) employer and we had fewer than 100 plan members (active and retired) as of the beginning of the reporting period and are, therefore, eligible to use the tool.

### **STEP 5: Perform or link to "Rely on Specialist" procedures**

If the entity gets their own actuarial valuation, you will need to download the "Rely on Specialist" step located in the Rely on Work of Others folder. Step 5 should link to that folder.

For the [PEBB OPEB AMM Online Tool](#) and [LEOFF 1 OPEB AMM Online Tool](#), our central analysis is documented in the ROWD. Delete the sections which are not applicable.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

Beginning with the 2019 annual report to SAO, cash-basis local governments will report their OPEB liabilities on the Schedule 9.

### **Pension and OPEB Area Guide**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**BARS [3.4.16](#) Other Postemployment Benefits** - contains guidance on reporting OPEB.

Record of Work Done:

### **STEP 1: Determine the type of OPEB plan(s) in which the employer participates**

- **Defined Contribution plans:** Defined contribution plans do not result in a liability to be reported on the Schedule 9. Contact the Pension/OPEB specialists if the local government offers a defined contribution OPEB plan to determine whether any disclosures would be considered necessary for fair presentation. *Note: The [BARS Manual](#) has a note disclosure template for OPEB plans, including defined contribution plans.*

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- **Defined Benefit plans:** The most common OPEB benefits provided by local governments are:

- PEBB – Participating employers in the state’s Public Employees Benefits Board (PEBB) plan provide OPEB through the plan’s implicit and explicit rate subsidies for retirees. Even when retirees pay 100% of their premiums, the employer still has an OPEB liability. See [List of PEBB Member Employers](#).
- LEOFF 1 – Under state law, employers are obligated for lifetime medical expenses of their LEOFF 1 retirees.

Per inquiry with Steve Austin, Clerk Treasurer and review of the City's FY19 and FY20 Notes to Financial Statements, we determined the City participates in the LEOFF 1 OPEB plan. Under state law, employers are obligated for lifetime medical expenses of their LEOFF 1 retirees. The City uses the Office of the State Actuary (OSA) on-line tool to calculate its LEOFF 1 OPEB liabilities. The OSA tool can only be used by employers with fewer than 100 plan participants. The City had 11 plan participants in 2019 and 9 plan participants in 2020. Therefore, the City is allowed to use the OSA tool to calculate its LEOFF 1 OPEB liabilities.

The City does not participate in defined contribution plans or PEBB.

### STEP 2: Trace OPEB amounts reported in Schedule 9 to supporting evidence

- Trace the amount reported on Schedule 9 to the most recent actuarial valuation report. This could be the OSA on-line tools or another professional actuarial valuation. Actuarial valuations should be performed at least biennially (with amounts rolled forward to the current measurement date) and the valuation date can be no more than 30 months and 1 day prior to the employer’s reporting date.

See auditor workpapers here: [2019 Schedule 09 Tie Out and Review](#) and [2020 Schedule 09 Tie Out and Review](#). We traced the amounts reported on the 2019 and 2020 Schedule 09 to the 2019 and 2020 OPEB OSA Tool ([PBC: 2019 LEOFF1 GASB 75 Tool - Final](#) and [PBC: 2020 LEOFF1 GASB 75 Tool - Final](#)), as seen in the tables below.

#### 2019:

OPEB Liability	City Calculation	Auditor Calculation	Variance	Auditor Notes
Beginning Balance	-	-	-	First year of implementation so full liability should be reported as additions.
Additions	5,844,896	5,844,896	-	First year of implementation so full liability should be reported as additions.
Reductions	-	-	-	
Ending Balance	5,844,896	5,844,896	-	

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### 2020:

OPEB Liability	City Calculation	Auditor Calculation	Variance	Auditor Notes
Beginning Balance	5,844,896	5,844,896	-	
Additions	-	-	-	
Reductions	1,099,975	1,099,975	-	
Ending Balance	4,744,921	4,744,921	-	

- Our office has worked closely with OSA in the development of the on-line PEBB and LEOFF 1 tools and testing of the tools is not necessary. Auditors should review the accuracy and completeness of census data entered into the tools by the local government or census data provided to an actuary for another professional valuation.

We tied the number of plan participants to census data from Steve Austin, Clerk Treasurer, that lists all participants as of December 31, 2019 and 2020. No exceptions noted. See review below:

### 2019:

Age	LEOFF 1 Members (Actives and Retirees)
55-64	1
65-69	3
70-74	3
75+	4

### 2020:

Age	LEOFF 1 Members (Actives and Retirees)
55-64	0
65-69	1
70-74	4
75+	4

- If amounts are based on OUTDATED or NO actuarial report, auditors should document a likely misstatement. If any understatement of the liability is not expected to be significant (based on consideration of number of participants and their ages), auditors do not need to quantify the potential misstatement. If the misstatement may be significant, auditors could conservatively quantify a ceiling for the misstatement by projecting the cash flows for the current year for all remaining participants to age 95. Contact TAS for assistance in evaluating materiality, if needed.

Not applicable. Amounts are based on actuarial reports.

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### STEP 3: Review note disclosures for accuracy and completeness

- Compare the note disclosure to the sample cash-basis OPEB note in the [BARS Manual](#) for minimum required disclosures. See auditor workpapers here [2019 Notes to Financial Statements Review](#) and [2020 Notes to Financial Statements Review](#). We compared the note disclosures to the sample cash-basis OPEB note in the BARS Manual for minimum required disclosures.

#### 2019:

Per the BARS Manual, if the government provides other postemployment benefits (OPEB), the following note disclosures are required in the year of implementation and each year thereafter. We reviewed the Notes to Financial Statements (Note 8) to ensure the following elements were included.

- The name of the OPEB plan - included ("LEOFF 1 OPEB")
- The name of the plan administrator - Note states the plan is administered by Clerk/Treasurer, Steve Austin. However, the plan is administered by the City. Considered trivial
- Identification of the OPEB plan as either a defined benefit plan or a defined contribution plan - included ("defined benefit plan")
- A brief description of the benefit terms. - included ("These benefits include health insurance, medical, vision, nursing care and related expenses")
- The number of OPEB plan participants (active and retired). - included ("The City of Clarkston has eleven retirees receiving benefits as of December 31, 2019"). We traced the number of active plan members and retired plan members to the PEBB participant report, as noted in **STEP 2**. No exceptions noted.
- For defined benefit plans only – The amount of the OPEB liability as of the reporting date (should agree to Schedule 9). If the alternative measurement method was used (e.g. the Office of the Washington State Actuary tools), that fact should be disclosed. - included. The amount of the OPEB liability as of the reporting date (\$5,844,896) agrees to the Schedule 09. The note also discloses the OPEB liability was calculated using the alternative measurement method from the Office of the Washington State Actuary.
- The dollar amount the employer contributed during the reporting period. - included. The City contributed \$203,064.15 during the reporting period.

Although most elements were included in the note disclosure, it is presented in question-answer format. The City may want to consider using the BARS note template example as follows - considered trivial:

*The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2019, the plan had eleven members, all retirees. As of December 31, 2019, the City's total OPEB liability was \$5,844,896, as calculated using the alternative measurement method. For the year ended December 31, 2019, the City paid \$203,064 in benefits.*

#### 2020:

Per the BARS Manual, if the government provides other postemployment benefits (OPEB), the following note disclosures are required in

## City of Clarkston

the year of implementation and each year thereafter. We reviewed the Notes to Financial Statements (Note 8) to ensure the following elements were included.

- The name of the OPEB plan - included ("LEOFF 1 OPEB")
- The name of the plan administrator - Note states the plan is administered by Clerk/Treasurer, Steve Austin. However, the plan is administered by the City. considered trivial
- Identification of the OPEB plan as either a defined benefit plan or a defined contribution plan - included ("defined benefit plan")
- A brief description of the benefit terms. - included ("These benefits include health insurance, medical, vision, nursing care and related expenses")
- The number of OPEB plan participants (active and retired). - included ("The City of Clarkston has nine retirees receiving benefits as of December 31, 2020"). We traced the number of active plan members and retired plan members to the PEBB participant report, as noted in **STEP 2**. No exceptions noted.
- For defined benefit plans only – The amount of the OPEB liability as of the reporting date (should agree to Schedule 9). If the alternative measurement method was used (e.g. the Office of the Washington State Actuary tools), that fact should be disclosed. - included. The amount of the OPEB liability as of the reporting date (\$4,744,921) agrees to the Schedule 09. The note also discloses the OPEB liability was calculated using the alternative measurement method from the Office of the Washington State Actuary.
- The dollar amount the employer contributed during the reporting period. - included. The City contributed \$201,236.57 during the reporting period.

Although most elements were included in the note disclosure, it is presented in question-answer format. The City may want to consider using the BARS note template example as follows - considered trivial:

*The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2020, the plan had nine members, all retirees. As of December 31, 2020, the City's total OPEB liability was \$4,744,921, as calculated using the alternative measurement method. For the year ended December 31, 2020, the City paid \$201,237 in benefits.*

If the audit report will be emphasizing the new accounting guidance for OPEB then the auditor will need to request that the following paragraph be added to the government's notes as shown in the [example BARS note](#):

*During the year ended (fiscal year end), the (city/county/district) adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.*

The following paragraph is recommended in the year of implementation:



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*During the year ended December 31, 2019, the City adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.*

We added the disclosure error to the aggregation of misstatements [[Aggregation of Misstatements \(BARS Cash\)](#)].

### **STEP 4: Additional management representation**

The City relied on the OSA's OPEB Liability Estimation Tool to calculate the OPEB liability for LEOFF 1. Therefore we will add the following representation to the management representation letter:

"We considered the qualifications of the WA Office of the State Actuary (OSA) to create an electronic tool for determining the **City's** liability for **LEOFF 1** other post-employment benefits (OPEB) under the GASB 75 alternative method and agree with the results of the electronic tool, which are reflected in financial statement amounts and disclosures. In using the tool, we input correct and complete information into the electronic spreadsheet, and did not enter any inaccurate information with respect to the amounts or assumptions, or modify cells in the OSA spreadsheet, in an attempt to change the outcome of the calculation. Further, we are not aware of any other external matters that would have had an impact on the appropriateness of using the alternative method or assumptions used by the OSA's tool. We confirm that we are a **LEOFF 1** employer and we had fewer than 100 plan members (active and retired) as of the beginning of the reporting period and are, therefore, eligible to use the tool."

**We included the additional representation here:** [FS Letter of Representation](#)

### **STEP 5: Perform "Rely on Specialist" procedures**

#### **Rely on Specialist – LEOFF 1 OPEB AMM Online Tool**

[\(PBC: 2019 LEOFF1 GASB 75 Tool - Final\)](#) and [PBC: 2020 LEOFF1 GASB 75 Tool - Final](#)

#### Assessment of Competence, Capabilities and Objectivity of Specialist

Our Office has had long experience working with the Office of the State Actuary and Milliman, who are known to be qualified and have experience with Washington OPEB plans reported in accordance with GASB.

We determined the specialists have the necessary competence, capabilities, and objectivity for the auditor's purpose. No interests or relationships have been identified which may create a threat to objectivity.

#### Understanding of Specialist's Work and Conclusions

We gained an adequate understanding of this field of expertise sufficient to perform the following work:

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- For the [LEOFF 1 OPEB AMM Online Tool](#) we have gained an understanding of the specialist's procedures and conclusions, including the methods and assumptions used. We have:
- Considered the assumptions noted on the "GASB Results" tab in combination with the most recent OSA LEOFF 1 Medical Benefits valuation report
- Considered the additional specific assumptions noted on the "Additional Disclosures" tab
- Reviewed the conclusions of the Certification Letter
- Performed a central review of the 2020 tool (prior to public release) as part of OSA's quality control process

### Evaluation of Specialist's Work

We evaluated the adequacy, assumptions and appropriateness of the work and determined it was appropriate for audit purposes.

### C.3.PRG - Review Presentation & Disclosure

*Procedure Step:* Related Party Transactions

*Prepared By:* TLJ, 11/9/2021

*Reviewed By:* HVB, 12/31/2021

Purpose/Conclusion.

#### **Purpose:**

To understand controls over related party transactions and evaluate whether such transactions were properly reported and disclosed.

#### **Conclusion:**

We gained an understanding of internal controls over related party transactions, noting **no** control deficiencies.

We identified **no related party transactions** requiring disclosure.

Testing Strategy.

The following steps are **required** to determine whether related party transactions are properly disclosed:

#### **STEP 1: Controls over Related Party Transactions**

Auditors are **required** to obtain an understanding of controls established to identify and account for related party relationships and authorize significant transactions with related parties.

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Inquiry should include confirmation with management of related parties, related party transactions, the nature and purpose of these relationships and transactions, and any changes from the prior period.

*We would expect controls to enable management to readily identify to the auditor a complete list of related parties and related party transactions and readily explain to the auditor the nature and purpose of the relationships and transactions and any changes from the prior period.*

*Weaknesses in internal controls over related party transactions should be evaluated in the same manner as any other control deficiency, although the system is not presumed to be material unless identified as such on the material balance spreadsheet.*

### **STEP 2: Identification of Related Parties**

*During planning the list of related parties in the permanent file should have been updated. Auditors should also be alert during the course of the audit for potential indications of related parties and update the permanent file as necessary for any new information discovered. If this has happened, no additional procedures would normally be necessary at this point to identify related parties.*

### **STEP 3: Identification of Related Party Transactions**

*If identification of related party transactions was documented in any other section (for example, as part of work on a material balance), auditors should summarize conclusions and link to that section in the record of work done.*

To the extent necessary based on risk, auditors should **consider** the following procedures to identify related party transactions:

- Perform CAATS or search for payments to identified related parties.
- Review minutes.
- Review FAWF for news articles or other items.
- Inquire with management as to whether there were any contracts, receipts, payments or other transactions with related parties that occurred during the fiscal year.
- If conflict of interest testing was done during the accountability audit, the auditor may refer to such work.
- Consider whether transactions are occurring but not being recorded, such as receiving or providing services at no charge.

### **STEP 4: Evaluation of Related Party Transactions and Disclosures**

*If evaluation or testing of identified related party transactions was documented in any other section, auditors should summarize conclusions and link to that section in the record of work done.*

For significant related party transactions outside the government's normal course of business, procedures are **required** to include:

- Inspection of underlying contracts or agreements to evaluate whether transactions have been appropriately accounted for and disclosed.
- Evaluation of the business purpose of transactions to determine whether they represent fraud or noncompliance.
- Verification that transactions have been appropriately authorized and approved.
- Evaluation of the adequacy of disclosures of material related party transactions

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Auditors should also **consider** similar types of procedures for related party transactions that are not significant or that occur within the normal course of the government's business to the extent necessary based on risk.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [6430](#) - Related Parties**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**Cash BARS [Note X - Component Unit\(s\), Joint Ventures, and Related Parties](#)** - includes a definition of related parties

Record of Work Done:

#### **STEP 1: Controls over Related Party Transactions:**

Steve Austin, Clerk Treasurer is knowledgeable about related party reporting requirements and financial statement preparation. Steve will identify potential related party transactions as part of his review and approval of all transactions during the period, including contracts and vendor payments. Steve attends regular Council meetings and has discussions with Council and the Mayor throughout the year. There were no significant related party transactions that he identified during the period.

#### **STEP 2: Identification of Related Parties:**

Based on general procedures performed during the course of the audit, we updated our identification of related parties as documented in the permanent file ([Entity Operations - BARS Cash Basis](#)).

-

#### **STEP 3: Identification of Related Party Transactions:**

Based on general procedures performed during the course of the audit, and as confirmed through discussions with Steve on 11/9/21, we identified **no** related parties that had non-trivial transactions with the government during the period.

#### **STEP 4: Evaluation of Transactions and Disclosures:**

Not applicable. We did not identify any significant related party transactions that require disclosure.

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## C.3.PR.G - Review Presentation & Disclosure

**Procedure Step:** Going Concern

**Prepared By:** TLJ, 11/9/2021

**Reviewed By:** AMS, 3/4/2022

Purpose/Conclusion.

**Purpose:**

To evaluate conditions noted during the audit regarding financial sustainability and conclude on the government's ability to continue as a going concern for one year after the end of the reporting period or shortly thereafter.

**Conclusion:**

Based on our evaluation, we **did not identify** substantial doubt about the government's ability to continue as a going concern for a reasonable period of time.

Testing Strategy.

Auditors are **required** to perform the following procedures to evaluate going concern:

***IMPORTANT NOTE: Procedures performed in other steps are assumed to be sufficient to identify any conditions or events that may indicate concerns regarding the government's ability to continue as a going concern. In this step, auditors only need to evaluate evidence obtained in other steps and – if indicators are noted – to follow-up on concerns.***

**STEP 1: Evaluate risk indicators**

Document any risk indicators noted during the course of the audit for financial distress. The auditor should remain alert throughout the audit for conditions or events that indicate financial distress.

*See the "Financial Condition" step in the Accountability cabinet for general examples of conditions or events that may indicate a going concern issue. See the planning guide for guidance on measuring financial health for this specific entity type. Contact the applicable subject matter expert if assistance with the evaluation is needed.*

Auditors should **consider** the following procedures to evaluate the severity of risk indicators:

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- Follow up inquiry or review of documents to follow up on particular risk indicators and understand their possible impacts.
- Analytical procedures, if needed to better understand the financial effect of noted items or place events or issues in context of the government's overall financial position and results of operations.

*If not already performed, auditors should consider using procedures described in the "Financial Condition" step in the Accountability cabinet.*

- Discuss potential issues with the government to confirm they are aware of the conditions, obtain their views on the situation, their plan to address financial concerns, and how the situation is being monitored by management and the governing body. The auditor should request that management perform a formal evaluation and document a formal plan, if they haven't already done so, and include this in the workpapers.
- Review financial projections, budget forecasts, interim budget reports or interim financial statements to understand the current state.

### **STEP 2: Conclusion about substantial doubt**

Based on consideration of risk indicators in Step 1, determine whether a substantial doubt exists that the government will be able to continue as a going concern for at least 15 months after fiscal year end.

*If auditors conclude there is substantial doubt about the government's ability to continue as a going concern for a reasonable period of time, an emphasis of matter paragraph in the audit report is required. When this criteria is not met, auditors may still determine that appropriate note disclosures or an emphasis of matter paragraph is needed to appropriately report the conditions or events. Also, any significant concerns regarding the ability to continue as a going concern or the long-term fiscal sustainability of the entity should be formally shared with the governing body, even if the auditor concludes that a modification to the report is not necessary. This may be done as a management letter or exit item in the financial statement audit or a finding, management letter or exit item in the accountability audit, as appropriate for the circumstances.*

**If any conditions were noted that lead the auditor to believe there is substantial doubt, continue auditors are required to complete steps 3-5 below. If not, steps 3-5 should be deleted in the record of work done.**

### **STEP 3: Evaluation of management's plans**

**If the auditor determines there is substantial doubt**, the following procedures are **required** to evaluate management's plans:

- **Discuss the situation with the applicable Assistant Director, Program Manager and subject matter expert.**
- Request management's plans to resolve conditions and management's own evaluation of their plans (that is, key elements, likelihood of success, consequences of failure and any significant uncertainties). For audit purposes, we would expect that

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such plans are written, address the relevant conditions or events, include sufficient detail regarding timelines and actions to be taken, are based on supporting documents or analysis as needed, are approved by the governing body and are updated to incorporate relevant new information as it becomes available. Auditors should consider follow-up on any aspect of management's plans that don't meet expectations to confirm that the plan accurately represents management's assertions, views and intentions.

*Management's plans and evaluation may have been informally developed or shared verbally with the auditor. A lack of formality may be due to valid factors (such as a fluid situation or straight-forward situation) or it may represent a control deficiency. If management's plans, evaluation or any key details or analysis do not appear to be complete or are not in written form, auditors should request that these items be completed and documented for purposes of the audit.*

*Auditors should also consider whether direct communication with the governing body or other key personnel is also appropriate. For example, if there are indications of disagreement within the government, if management was not aware of the issue or if the governing body has otherwise not been informed of the issue or the significance of the issue, or if the governing body has not formally adopted or approved management's plans.*

- Identify key elements or actions included in management's plans. Consider the allowability of all actions, and the reasonableness of planned actions. Also consider whether planned actions adequately address the known issues and conditions.

*For example, auditors may consider the extent to which needed actions are within the control of the government, encumbrances and marketability of assets planned to be sold, or apparent feasibility of plans to reduce expenses or increase revenues. For plans to reduce expenses, auditors may consider whether cuts are to fixed or variable costs, whether cuts are expected to be temporary (that is, deferred) or permanent, and whether deferring costs might result in higher total costs later (for example, deferred maintenance or layoffs expected to be hired right back may end up costing more over the long-term). Contact the applicable subject matter specialist if assistance with the evaluation is needed.*

- If the plan includes subsequent transactions or actions that are within the control of the government, consider when and how the government would act on this and review evidence that the government intends to act or is actually carrying out the plan.

*In addition to governing body approval of the plan, evidence may include public statements or preliminary steps necessary to carry out the planned action. Or if actions have subsequently taken place, the auditor could review supporting documentation such as sales of assets or terms of new debt issuances.*

- If management's plans depend on obtaining financial support from a third party, obtain evidence about the intent and ability of those parties to provide the necessary support. This evaluation is **required** to include:

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- Having management obtain a **written** commitment from the supporting party to provide or maintain the necessary support, or the auditor confirming directly with those parties **in writing**.
- Evaluating the ability of supporting parties by considering past funding and the financial condition of the supporting party.

*When management's plans are dependent on support from other parties, and **written** evidence of the intent of those parties to provide support cannot be obtained, then professional standards (AU-C 570.17) would prohibit the auditor from concluding that management's plans alleviate the substantial doubt. Contact TAS if advice about application of standards is needed.*

- Similarly, if management's plans depend on actions taken by others, consider whether management communicate with or received communication from those other parties. The auditor may wish to communicate directly with other parties to obtain evidence about their intentions.
- If the plan includes assumptions about changes in future conditions, auditors should review support for such assertions.

*For example, the auditor may review interim budget reports or bank statements or may trend monthly cash balances or operating results into the subsequent period.*

- Add additional representations to the management representation letter to address management's plan and note disclosure, as well as any other significant conditions or uncertainties that the auditor believes is necessary to confirm our understanding.

*See AU-C 580 Appendix B for an example representation for circumstances where financial conditions are strained and management is asserting that the entity is able to continue as a going concern. Auditors may also consider additional representations specific to management estimates, contingencies, or specific subsequent events or disclosures.*

- Conclude on whether there is sufficient evidence to indicate that it is probable that management's plans could be effectively implemented and that those plans would sufficiently mitigate the relevant conditions.
- Conclude on whether substantial doubt is alleviated by management's plans.

*This conclusion will affect the language of management's note disclosure and of our emphasis of matter paragraph and finding. However, a note disclosure, emphasis of matter paragraph and finding will be required in either case.*



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## **STEP 4: Review Financial Reporting**

Evaluate the sufficiency of financial reporting and disclosure surrounding the conditions, liabilities, uncertainties or contingencies that were noted.

*As required by accounting standards, when the auditor concludes there is substantial doubt about the ability of the government to continue as a going concern - whether or not doubt is alleviated by management's plans - we would expect a note disclosure describing the following:*

- *Conditions giving rise to substantial doubt about the government's ability to continue as a going concern*
- *Potential effects of conditions (including discontinuance of operations)*
- *Management's evaluation*
- *Management's plans (including relevant prospective information)*
- *Information about the recoverability or classification of recorded assets and liabilities as required by accounting standards.*

## **STEP 5: Audit Reporting**

An emphasis of matter paragraph is required whenever there is substantial doubt about the government's ability to continue as a going concern - whether or not this doubt is alleviated by management's plans. A finding is also presumed. If management's plan and disclosure are adequate (even if doubt is not alleviated), the finding would be referenced in our emphasis of matter paragraph, but would not be considered a significant deficiency or material weakness (that is, not referenced in our I-report).

If management does not have an adequate plan, the finding would also be considered a significant deficiency or material weakness in controls over financial reporting. If the lack of adequate plans or unwillingness to disclose information on the part of the government results in inadequate disclosure, auditors should also contact TAS for assistance in determining whether a modified opinion is necessary.

See ARS manual Part 3, chapter 9 for instructions and contact TAS for assistance with report modifications.

Guidance/Criteria.\*

## **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [6440](#) - Going Concern**

## **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**Cash BARS [Note X - Going Concern](#)** - includes instructions and examples, as well as describes responsibilities of preparers to make

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appropriate disclosures of the government's ability to continue as a going concern

### **AU-C Section 570 – The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern**

Record of Work Done.7

#### **STEP 1: Evaluate risk indicators**

We identified **no** conditions, events or issues that (individually or in aggregate) indicate there could be a substantial doubt about the ability to continue as a going concern for a reasonable period of time. We used the Financial Intelligence Tools (FIT) from LGCS to review financial condition at [[Financial Intelligence Tool 2019](#) and [Financial Intelligence Tool 2020](#)]. We noted no financial warning indicators for fiscal years 2019 and 2020.

#### **STEP 2: Conclusion about substantial doubt**

After consideration of risk indicators and information obtained during the course of the audit as described above, we identified **no** conditions or events that (individually or in aggregate) which raise substantial doubt about the government’s ability to continue as a going concern for a reasonable period of time before consideration of management’s plans.

### **C.3.PRG - Review Presentation & Disclosure**

***Procedure Step:*** Management Override of Controls

***Prepared By:*** TLJ, 12/7/2021

***Reviewed By:*** AMS, 3/4/2022

Purpose/Conclusion.7

#### **Purpose:**

To address the risk of management override of controls.

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### **Conclusion:**

From our review we noted no issues regarding the management override of controls.

### **Testing Strategy:**

To address the risk of management override of controls, auditors are **required** to perform the following procedures:

- **Year End Adjusting Journal Entries:** Identify and scan all year-end adjusting journal entries and then test selected (or sampled) entries.

*Adjustments may take many forms including 13th or 14th period entries, closing entries, consolidations or off-book adjustments, reconciling items between the GL and prepared financial statements or reclassifications made when rolling up GL accounts to the financial statements. We would expect supporting documentation that adequately explains all such adjustments.*

*At least some journal entries must be selected for testing. The extent of journal entry testing should be based on risk, including our understanding of procedures and controls over the financial statement preparation process.*

- **Additional Journal Entry Testing:** Determine if additional testing of journal entries throughout the period is necessary.

*Additional testing may have been planned to respond to specific risk indicators, or may be considered necessary at this point by the auditor.*

- **Evaluation of Estimates for Biases:** Evaluate estimates for bias by identifying any significant estimates, performing a retrospective review of estimates giving rise to significant risks and evaluating all estimates in aggregate for indications of management bias.

*An accounting estimate is an approximation of a financial statement item, such as allowance for doubtful accounts or self-insurance liabilities. Estimates giving rise to significant risks are those with potential for a material impact on financial statement presentation that have high estimation uncertainty - that is, estimates that are highly sensitive to management judgments, are not calculated using recognized techniques, or that otherwise appear to have substantial variance with actual outcomes. **We would not typically expect any such accounting estimate for a cash basis entity.***

- **Significant Unusual Transactions:** If any unusual, unsupported, disputed or extraordinary transactions were identified in planning or during the course of the audit, document or reference follow-up testing.

*Unusual or unsupported transactions are transactions that appear overly complex, inadequately explained or without a business rationale. Disputed transactions are those where key entity staff disagree about the correct accounting. Extraordinary transactions are those that occur outside the normal course of the government's business. Auditors should be especially sensitive to interfund or related party transactions with any of the above characteristics. These transactions may be identified in the Risk Assessment Inquiry step or by other planning or substantive procedures.*

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- **Other Testing:** Perform other tests as necessary to address management override of controls.

*Additional testing may have been planned to respond to specific risk indicators, or may be considered necessary at this point by the auditor.*

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **SAO Audit Policy [6320](#) - Consideration of Fraud, Noncompliance and Abuse**

Record of Work Done:

### **Journal Entries:**

For each month Steve Austin, Clerk Treasurer maintains a cover sheet with journal vouchers (JVs) listed for each month. Only the beginning budget balances are completed as part of the year-end entry process. All other year-end entries are automatically performed by the system, so we determined that a review of the other transfers activity would be completed. We received the transaction activity report for transfers for 2019 and 2020 from Steve. We determined that each year there are 7-8 transactions completed and that all transactions were the same type each year, just with differing amounts, so we judgementally selected 8 to test (3 from 2020 and five from 2019). We reviewed the journal entry and underlying documentation to determine the validity of the financial event (existence), calculation or valuation of amounts posted (valuation and rights and obligations), whether amounts were allocated to the appropriate accounts (classification), and whether the amounts were posted to the correct fiscal period (existence and completeness). We determined selected general ledger transactions support relevant financial statement assertions and the key internal control is in place. See testing at [\[JE Testing\]](#).

### **Journal Entries throughout the Period:**

Based on our risk assessment and understanding, we determined that further testing of journal entries throughout the period (in addition to any testing performed in other sections of the audit) is **not** necessary.

### **Evaluation of Estimates for Biases:**

We identified **no** estimates giving rise to significant risks as documented in FS Audit Plan step. See: [FS Audit Plan](#).

Compensated Absences: The City's compensated absences liability estimate is reviewed during each financial audit without concern. We tied out compensated absences reported on the Schedule of Liabilities (Schedule 09) to supporting underlying accounting records at [\[SI and OI\]](#).

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Pension Liabilities: The City's pension liabilities are based on an estimate, but determined by the Washington State Department of Retirement Systems (DRS). This was also reviewed at [[Pension Liability](#)].

Other Post-Employment Benefits (OPEB) Liabilities: The City's OPEB liabilities are based on an estimate, but determined by the Office of the State Actuary (OSA). This was also reviewed at [[OPEB Liability](#)].

In addition, we generally considered accounting estimates and judgments made throughout the financial statements to evaluate the potential for a significant bias in aggregate. We identified **no** indications of management bias in aggregate.

### **Significant Unusual Transactions:**

During planning and throughout the course of the audit, we identified **no** significant unusual transactions.

### **Other Testing:**

We considered whether any further special procedures were needed to address the risk of management override of control and determined that **no** further procedures were necessary.

### **C.3.PRG - Review Presentation & Disclosure**

*Procedure Step:* Implementation of BARS Changes

*Prepared By:* TLJ, 11/15/2021

*Reviewed By:* AMS, 3/4/2022

Purpose/Conclusion.\*

*Major BARS changes are effective for FY 2018 through 2020 financial statements. Auditors should review these changes in detail in the year of implementation.*

### **Purpose:**

To determine whether major BARS changes have been properly implemented, as applicable.

### **Conclusion:**

From our review we determined whether major BARS changes have been properly implemented, as applicable, with the exception of the following:

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2020:

- The Notes to Financial Statements did not describe the specific purposes (not functions) and amounts of ending cash and investments restrictions and commitments are understated by \$4,488,504.

We will aggregate these errors here: [Aggregation of Misstatements \(BARS Cash\)](#), assess the issues at [LOR Summary](#), and issue a recommendation at [Financial statement preparation](#).

Testing Strategy:

To determine whether major BARS changes have been properly implemented, auditors are **required** to perform the following procedures, as applicable, in the year of implementation. Auditors should also evaluate whether the change has a material effect on the comparability of financial statements to the prior year. Contact Team LGS with any questions regarding BARS criteria or the implementation of new BARS requirements.

### Applicable FY 2020 and thereafter:

- **Schedule 06** – This schedule is now required for Counties. Auditors should expect this summary of bank reconciliations to be available for use in completing the [Cash Flow Reconciliation](#).
- **Fiduciary Activities** – New reporting guidance regarding determination of activity to be reported in custodial funds. A new section in BARS includes prescribed custodial and non-custodial activities. *See Fiduciary Activities below for minimum procedures in the year of implementation.*
- **Asset Retirement Obligations (AROs)** – Added requirement to disclose and if payments are probable and can be reasonably estimated then the amount of the liability should be reported on Schedule 9. *See Asset Retirement Obligations below for minimum procedures in the year of implementation.*
- **Fund Balance Classifications** - Beginning and ending fund balance classifications have been changed for cash basis entities to resemble GAAP fund balance categories. The classification categories are no longer reserved and unreserved; instead, the categories are nonspendable, restricted, committed, assigned and unassigned. Cash basis entities will be expected to reclassify their fund balances in accordance with these new classifications. *See Fund Balance Classifications below for minimum procedures in the year of implementation.*
- **Notes** - Notes to the financial statements have been updated. As part of the [Review Presentation & Disclosure](#) steps, auditors should review to ensure the entity has included applicable note disclosures. See BARS manual note disclosure examples and instructions at this [link](#). Most notable changes are:
- **Note X – COVID-19 Pandemic**: the reference to COVID-19 was removed from Note X – Subsequent Events and there is now a separate note for COVID-19 reporting requirements. See also [FYI 2020-01 COVID-19 Considerations](#).
- **Note X – Paid Family Medical Leave Act Self-Insurance**: new note added for required disclosures if self-insuring the WA Paid Family & Medical Leave. Additional information on self-insuring for PFML can be found at BARS [4.8.9](#) Risk Management (Schedule 21) and [Accountability | Compliance Requirements | Self-Insurance | PFML Voluntary Plan](#).

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### Applicable FY 2019 and thereafter:

- **Schedule 06** – This new schedule is required for Cities. Auditors should expect this summary of bank reconciliations to be available for use in completing the [Cash Flow Reconciliation](#).
- **Schedule 9** – Other Post-Employment Benefits ([OPEB](#)) added. This work should be performed in the [OPEB Liability](#) step as part of Baseline Testing. For more information, see this [link](#). Also, see the [Consistency of Statements](#) step for determining if the implementation of this new accounting guidance will require an emphasis of matter paragraph. If emphasizing this matter auditors will need to request that governments add the language to their OPEB note discussing the adoption of new accounting guidance as shown in the [example BARS note](#).

### Applicable FY 2018 and thereafter:

- **Notes** - Other Post-Employment Benefits disclosure added. Auditors should review notes to ensure the entity has included the note disclosure pertaining to Other Post-Employment Benefits. See BARS manual note disclosure example and instructions at this [link](#). BARS [3.4.16](#) was updated to provide an overview of other postemployment benefits.
- **Schedule 09** - Verify that governments report both short-term and long-term liabilities on the Schedule 09. Additionally, verify new ID numbers for registered warrants and lines of credits are reported (as applicable).
- **Account Codes** - The 2018 BARS manual contains numerous changes to account codes. While financial statements did not change significantly, some reclassifications will affect this level. Auditors will notice a lot more reclassifications at the GL level.
- **Legal Services** - BARS Account Code 515.3X (internal) and 515.4X (external), Legal Services, has been divided between internal and external legal services. This aligns accounting records with audit procedures and will further assist auditors when performing the "Litigation, Claims & Assessments" procedures under the Concluding Financial Audit Procedures section. The change was previously announced in 2016, but is now required reporting for FY18. Internal Legal Services includes BARS accounts 515.31, Internal Legal Services - Advice, and 515.35 Internal Legal Services - Claims and Litigation.

### Fund Balance Classification (applicable in FY 2020):

- Review guidance for this new area in [BARS 3.1.8](#) Beginning and Ending Cash and Investments Classifications.
- Inquire about the government and review their assessment and determination of classifications for reasonableness and completeness. Auditors should confirm this assessment by comparing it to their understanding of government operations and fund purposes, and specifically inquiring about unexpected classifications.
- Follow-up on any potential misstatements. Steps may include more detailed review of the government's analysis, review of supporting documentation for restrictions, commitments or assignments, evaluation of the government's reserve fund policies,

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tracing accounting for restricted revenues to ending balance classifications, or researching potentially omitted sources of external restrictions.

*If significant follow-up procedures are needed, auditors may identify this as an Additional Risk in the plan in order to more easily plan and perform targeted testing in a separate step, [Classification Errors in Ending Balances](#).*

### **Fiduciary Activities (applicable when implemented, FY 2019 or FY 2020):**

Due to COVID-19 this BARS [accounting guidance may be delayed](#) until FY20. Governments have the option of either implementing or delaying the guidance (full standard can be implemented but there cannot be partial implementation of a standard).

- Review guidance for this area in BARS 4.3.14 [Determining Fiduciary Activities to be Reported in Custodial Funds](#).
- Inquire with the government about their assessment of fiduciary activities and any changes they made – whether reclassifying funds as fiduciary or vice versa.
- Auditors should review this assessment for reasonableness and completeness, compare to prescribed classifications in the BARS manual, and specifically inquire about any unexpected conclusions.

*Auditors should be alert that the Cash-basis fiduciary guidance uses different vocabulary, but only with the intent of conveying the same GAAP criteria in a more plain-talk way. We would expect that cash-basis determinations of what activities would be considered fiduciary will match GAAP. Additional information is also available in the [GAAP GASB 84 testing strategy](#).*

- Follow-up on any potential fund misclassifications. Steps may include more detailed review of the government's analysis, more detailed tracing of activities to statewide analysis as documented in the [GASB 84 Determination worksheet](#) or BARS manual, and/or consulting with LGS for assistance.

*If significant follow-up procedures are needed, auditors may identify this as an Additional Risk in the plan in order to more easily plan and perform targeted testing in a separate step, [Fund Type Classification Errors](#).*

### **Asset Retirement Obligations (applicable when implemented, FY 2019 or FY 2020)**

Due to COVID-19 this BARS [accounting guidance may be delayed](#) until FY20. Governments have the option of either implementing or delaying the guidance (full standard can be implemented but there cannot be partial implementation of a standard).

- Review guidance for this new area in BARS 3.4.18 [Environmental and Certain Assets Retirement Liabilities](#). See also the Center resource [Identifying Asset Retirement Obligations](#).



## City of Clarkston

- Inquire with the government and review the government's list of identified AROs for reasonableness and completeness. Auditors should confirm this list by comparing it to their understanding of government operations and specifically inquiring about common or expected AROs if the government has not identified them.

*If an ARO exists, it should be disclosed as described in Note X - Other Disclosures. If the amount of ARO liabilities can be reasonably estimated and it's probable that the government will be obligated to pay it, the amount should be reported on the Schedule 09 under Debt ID code 263.93. This means that actual payments towards this liability are expected in the foreseeable future (such as a contract stating property should be returned to its natural condition after 10 years).*

- Follow-up on any potential omissions or misstatements.

*If significant follow-up procedures are needed, auditors may identify this as an Additional Risk in the plan in order to more easily plan and perform targeted testing in a separate step, **Misstated Schedule 9 Liabilities**.*

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

In general, BARS changes may be implemented early so long as changes are completely implemented. Effective dates represent when changes are required to be implemented. Implementation questions should be directed to Team LGS.

See link for complete list of changes within the chart of accounts, accounting, reporting, and online filing sections:  
[www.sao.wa.gov/local/BarsManual/Cash/Pages/Overview-of-Significant-Changes.aspx](http://www.sao.wa.gov/local/BarsManual/Cash/Pages/Overview-of-Significant-Changes.aspx)

Record of Work Done:

### **Applicable FY 2020 and thereafter:**

- **Schedule 06** – This schedule is now required for Counties. Auditors should expect this summary of bank reconciliations to be available for use in completing the **Cash Flow Reconciliation**.
- **The City reported a Schedule 06 for FY2020 as confirmed here Cash Flow Reconciliation. No issues noted.**
- **Fiduciary Activities** – New reporting guidance regarding determination of activity to be reported in custodial funds. A new section in BARS includes prescribed custodial and non-custodial activities. *See Fiduciary Activities below for minimum procedures in the year of implementation.*

## City of Clarkston

- We evaluated this area in the "Fiduciary Activities" section below.
- **Asset Retirement Obligations (AROs)** – Added requirement to disclose and if payments are probable and can be reasonably estimated then the amount of the liability should be reported on Schedule 9. *See Asset Retirement Obligations below for minimum procedures in the year of implementation.*
- We evaluated this area in the "Asset Retirement Obligations" section below.
- **Fund Balance Classifications** - Beginning and ending fund balance classifications have been changed for cash basis entities to resemble GAAP fund balance categories. The classification categories are no longer reserved and unreserved; instead, the categories are nonspendable, restricted, committed, assigned and unassigned. Cash basis entities will be expected to reclassify their fund balances in accordance with these new classifications. *See Fund Balance Classifications below for minimum procedures in the year of implementation.*
- We evaluated this area in the "Fund Balance Classifications" section below.
- **Notes** - Notes to the financial statements have been updated. As part of the [Review Presentation & Disclosure](#) steps, auditors should review to ensure the entity has included applicable note disclosures. See BARS manual note disclosure examples and instructions at this [link](#). Most notable changes are:
  - **Note X – COVID-19 Pandemic**: the reference to COVID-19 was removed from Note X – Subsequent Events and there is now a separate note for COVID-19 reporting requirements. See also [FYI 2020-01 COVID-19 Considerations](#).
    - We confirmed a separate note (Note 9 - COVID-19 Pandemic) was disclosed for COVID-19 reporting requirements. See [2020 Notes to Financial Statements here: 2020 Notes to Financial Statements Review](#).
  - **Note X – Paid Family Medical Leave Act Self-Insurance**: new note added for required disclosures if self-insuring the WA Paid Family & Medical Leave. Additional information on self-insuring for PFML can be found at BARS [4.8.9](#) Risk Management (Schedule 21) and [Accountability | Compliance Requirements | Self-Insurance | PFML Voluntary Plan](#).
    - Not applicable. Per our review of the financial statements, notes to financial statements, schedule 21, and inquiry with City Clerk/Treasurer Steve Austin, the City does not self-insure for the Paid Family Medical Leave Act. Rather, the City pays into the state pool.

### Applicable FY 2019 and thereafter:

- **Schedule 06** – This new schedule is required for Cities. Auditors should expect this summary of bank reconciliations to be available for use in completing the [Cash Flow Reconciliation](#).
  - The City reported a Schedule 06 for FY2019 as confirmed here: [Cash Flow Reconciliation](#). No issues noted.
- **Schedule 9** – Other Post-Employment Benefits ([OPEB](#)) added. This work should be performed in the [OPEB Liability](#) step as part of Baseline Testing. For more information, see this [link](#). Also, see the [Consistency of Statements](#) step for determining if the implementation of this new accounting guidance will require an emphasis of matter paragraph. If emphasizing this matter auditors will need to request that governments add the language to their OPEB note discussing the adoption of new accounting guidance as shown in the [example BARS note](#).

## City of Clarkston

- Per our review of the FY2019 and FY2020 Schedule 09 the City reported a LEOFF 1 OPEB liability (See: [2019 Schedule 09 Tie Out and Review](#) and [2020 Schedule 09 Tie Out and Review](#)). See work performed here: [OPEB Liability](#).

### Applicable FY 2018 and thereafter:

- **Notes** - Other Post-Employment Benefits disclosure added. Auditors should review notes to ensure the entity has included the note disclosure pertaining to Other Post-Employment Benefits. See BARS manual note disclosure example and instructions at this [link](#). BARS [3.4.16](#) was updated to provide an overview of other post employment benefits.
- We reviewed this in the prior audit (see file: 07Clarkston-AC18-FS18) with no issues noted.
- **Schedule 09** - Verify that governments report both short-term and long-term liabilities on the Schedule 09. Additionally, verify new ID numbers for registered warrants and lines of credits are reported (as applicable).
- We reviewed this in the prior audit (see file: 07Clarkston-AC18-FS18) with no issues noted.
- **Account Codes** - The 2018 BARS manual contains numerous changes to account codes. While financial statements did not change significantly, some reclassification will affect this level. Auditors will notice a lot more reclassification at the GL level.
- We reviewed this in the prior audit (see file: 07Clarkston-AC18-FS18) with no issues noted.
- **Legal Services** - BARS Account Code 515.3X (internal) and 515.4X (external), Legal Services, has been divided between internal and external legal services. This aligns accounting records with audit procedures and will further assist auditors when performing the "Litigation, Claims & Assessments" procedures under the Concluding Financial Audit Procedures section. The change was previously announced in 2016, but is now required reporting for FY18. Internal Legal Services includes BARS accounts 515.31, Internal Legal Services - Advice, and 515.35 Internal Legal Services - Claims and Litigation.
- We reviewed this in the prior audit (see file: 07Clarkston-AC18-FS18) with no issues noted.

### Fund Balance Classification (applicable in FY 2020):

- Review guidance for this new area in [BARS 3.1.8](#) Beginning and Ending Cash and Investments Classifications.
- We reviewed the guidance for this new area in [BARS 3.1.8 Beginning and Ending cash and investments classifications](#).
- Inquire about the government and review their assessment and determination of classifications for reasonableness and completeness. Auditors should confirm this assessment by comparing it to their understanding of government operations and fund purposes, and specifically inquiring about unexpected classifications.
- We reviewed the Statement C-4 and confirmed the following categories have been expanded upon to include the following: nonspendable, restricted, committed, assigned and unassigned. See Statement C-4 at: [2020 C4 GL Tie out](#). We reviewed the City's fund balance classifications for reasonableness. See documentation at [Fund Classification](#). We determined fund balances were appropriately classified. However, the Notes to Financial Statements did not describe the specific purposes (not functions) and amounts of ending cash and investments restrictions and commitments are understated by \$4,488,504. We added this error to the aggregation of misstatements [Aggregation of Misstatements (BARS Cash)].
- Follow-up on any potential misstatements. Steps may include more detailed review of the government's analysis, review of supporting documentation for restrictions, commitments or assignments, evaluation of the government's reserve fund policies,

## City of Clarkston

tracing accounting for restricted revenues to ending balance classifications, or researching potentially omitted sources of external restrictions.

- Not applicable. No issues noted per our review.

### **Fiduciary Activities (applicable when implemented, FY 2019 or FY 2020):**

Due to COVID-19 this BARS [accounting guidance may be delayed](#) until FY20. Governments have the option of either implementing or delaying the guidance (full standard can be implemented but there cannot be partial implementation of a standard).

- Review guidance for this area in BARS 4.3.14 [Determining Fiduciary Activities to be Reported in Custodial Funds](#).
- We reviewed BARS 4.3.14 for guidance.
- Inquire with the government about their assessment of fiduciary activities and any changes they made – whether reclassifying funds as fiduciary or vice versa.
- Per our review of the financial statements, GL, and inquiry with City Clerk/Treasurer Steve Austin, the City does not have any fiduciary activities and does not report a Statement C-5.
- Auditors should review this assessment for reasonableness and completeness, compare to prescribed classifications in the BARS manual, and specifically inquire about any unexpected conclusions.
- Not applicable, the City does not have any fiduciary activities and does not report a Statement C-5.
- Follow-up on any potential fund misclassifications. Steps may include more detailed review of the government's analysis, more detailed tracing of activities to statewide analysis as documented in the [GASB 84 Determination worksheet](#) or BARS manual, and/or consulting with LGS for assistance.
- Not applicable, the City does not have any fiduciary activities and does not report a Statement C-5.

### **Asset Retirement Obligations (applicable when implemented, FY 2019 or FY 2020)**

Due to COVID-19 this BARS [accounting guidance may be delayed](#) until FY20. Governments have the option of either implementing or delaying the guidance (full standard can be implemented but there cannot be partial implementation of a standard).

- Review guidance for this new area in BARS 3.4.18 [Environmental and Certain Assets Retirement Liabilities](#). See also the Center resource [Identifying Asset Retirement Obligations](#).
- We reviewed BARS 3.4.18 and the Center resource for guidance.
- Inquire with the government and review the government's list of identified AROs for reasonableness and completeness. Auditors should confirm this list by comparing it to their understanding of government operations and specifically inquiring about common or expected AROs if the government has not identified them.
- We confirmed with City Clerk Treasurer Steve Austin that the City did perform a review of the the BARS Manual changes related to asset retirement obligations in 2019 and 2020 to determine if any of its current assets meet the ARO definition, however the city does maintain an active listing that is maintained in cooperation with its insurance provider.

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- Follow-up on any potential omissions or misstatements.
- We performed our own analysis to identify any potential assets that would have retirement obligations. Using the ARO list from the Center resource, we considered other possible assets the City has which could have retirement obligation costs:
  - Underground fuel storage tanks: We searched Department of Ecology inventory and found no active tanks which appeared to be owned by the City. No issues noted.
  - Wells: We searched the DOE well report for wells owned by the City of Clarkston. We identified 20 wells owned by the City, none of which are water wells but are instead geological exploratory wells measuring 5-15ft in depth. All 20 of the wells have officially been decommissioned (these wells were decommissioned immediately after construction as required per the Department of Ecology). No issues noted.
  - Surface mining/quarries: We searched the DNR website inventory of mining operations (List is from 2010, see: [https://www.dnr.wa.gov/publications/ger\\_ofr2010-7\\_directory\\_surface\\_mines.pdf?p7x8a1u](https://www.dnr.wa.gov/publications/ger_ofr2010-7_directory_surface_mines.pdf?p7x8a1u)). and noted from the listing the city has no surface mines. No issues noted.
  - Wastewater treatment plants: We noted that the City has one wastewater treatment plant still in use with no plans in the near future to decommission the plant. No issues noted.

### C.3.PRG - Review Presentation & Disclosure

*Procedure Step:* Agree Statements to Accounting Records  
*Prepared By:* TLJ, 12/18/2021  
*Reviewed By:* AMS, 3/4/2022

Purpose/Conclusion:

#### **Purpose:**

To determine whether financial statements are in agreement with accounting records.

#### **Conclusion:**

We determined the financial statements are in agreement with accounting records, **with the exception of the following:**

#### **2019**

- There is a difference of approximately \$16,533 between the auditor's expectation of total ending cash and investments and actual cash and investments reported in the financial statements (understatement).

## City of Clarkston

- Total miscellaneous revenues (360) is understated by \$16,533. Per the GL, total miscellaneous revenues should be \$233,566. Below are the misstatements by fund:
  - Current Expense Fund (001) - Miscellaneous Revenues (360) should be \$102,560 per GL. The reported amount is understated by \$5,700.
  - Rescue Unit One Fund (102) - Miscellaneous Revenues (360) should be \$441 per GL. The reported amount is understated by \$24.
  - Street Fund (103) - Miscellaneous Revenues (360) should be \$24,422 per GL. The reported amount is overstated by \$87.
  - Transportation Benefit District Fund (104) - Miscellaneous Revenues (360) should be \$26,668 per GL. The reported amount is understated by \$3,372.
  - Drug Enforcement Fund (108) - Miscellaneous Revenues (360) should be \$260 per GL. The reported amount is understated by \$20.
  - Ambulance/EMS Fund (120) - Miscellaneous Revenues (360) should be \$7,434 per GL. The reported amount is understated by \$954.
  - Lodging Tax Fund (130) - Miscellaneous Revenues (360) should be \$10,328 per GL. The reported amount is understated by \$1,037.
  - Municipal Cap Improvement Fund (306) - Miscellaneous Revenues (360) should be \$8,654 per GL. The reported amount is understated by \$884.
  - Sewer M & O Fund (400) - Miscellaneous Revenues (360) should be \$45,770 per GL. The reported amount is understated by \$3,976.
  - Stormwater O & M Fund (409) - Miscellaneous Revenues (360) should be \$1,006 per GL. The reported amount is understated by \$65.
  - Sanitation O & M Fund (410) - Miscellaneous Revenues (360) should be \$6,023 per GL. The reported amount is understated by \$588.

### 2020

- We could not reconcile beginning cash and investments to within our expectations (exactly). There is a difference of approximately \$3,612 between the auditor's expectation of total beginning cash and investments and actual beginning cash and investments reported in the financial statements (overstatement).
- We could not reconcile revenues/non-revenues to cash deposits to within our expectations (1% or \$134,175). There is a difference of approximately \$218,203 between the auditor's expectation of total revenues and actual revenues reported in the financial statements (understatement).
- We could not reconcile expenditures/non-expenditures to cash withdrawals to within our expectations (1% or 119,045). There is a difference of approximately \$232,340 between the auditor's expectation of total expenditures and actual expenditures reported in the financial statements (understatement).

## City of Clarkston

- We could not reconcile ending cash and investments to within our expectations (\$2,000 floor). There is a difference of approximately \$491 between the auditor's expectation of total ending cash and investments and actual ending cash and investments reported in the financial statements (overstatement).

We will aggregate these errors here: Aggregation of Misstatements (BARS Cash), assess the issues at LOR Summary, and issue a recommendation at Financial statement preparation.

### Testing Strategy:

The following procedures are **required** to be performed:

Agree statements (or Schedule 1) to the underlying accounting records (general ledger).

*The extent of procedures should be based on identified risk. At a minimum, auditors should trace total ending cash for all funds and other selected balances or totals to match the risk.*

*If Schedule 1 is exported directly from the GL without modification, then procedures would normal entail obtaining this report and tracing it to the financial statements. If the Schedule 1 export involves roll-up of accounts, then the auditor should also obtain this mapping and evaluate the appropriateness of roll-ups. Otherwise, we would expect that reconciliation or comparison of financial statement line items to source records along with a detailed list and supporting documentation for each adjustment would be available as part of the government's documentation and controls over annual report filing and statement preparation.*

*Auditors should be alert for misclassification risks (between funds or line items).*

In conjunction with the understanding of the financial statement preparation process documented in the permanent file and testing of year-end and off-book adjusting entries in the Management Override of Controls step, evaluate the completeness and appropriateness of any additions, adjustments, re-classifications or eliminations that are occurring between the GL and financial statements.

*We would not expect any off-book adjusting entries other than elimination of intrafund transactions associated with managerial funds that are rolled up for financial reporting purposes (if any).*

### Guidance/Criteria:

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## Record of Work Done:

The following procedures are **required** to be performed:

Agree statements (or Schedule 1) to the underlying accounting records (general ledger).

We agreed the financial statements to the general ledger or other support and footed and cross-footed the statements. See auditor workpapers here: 2019 C4 GL Tie out and 2020 C4 GL Tie out

We agreed beginning cash and investments balances to prior year financial statements obtained in FAP. We agreed revenues, expenditures, other increases in fund resources, and other decreases in fund resources to the City's general ledger report obtained from Steve Austin, Clerk Treasurer. We noted the following misstatements which we added to the aggregation [Aggregation of Misstatements (BARS Cash)].

### 2019

- There is a difference of approximately \$16,533 between the auditor's expectation of total ending cash and investments and actual cash and investments reported in the financial statements (understatement).
- Total miscellaneous revenues (360) is understated by \$16,533. Per the GL, total miscellaneous revenues should be \$233,566. Below are the misstatements by fund:
  - Current Expense Fund (001) - Miscellaneous Revenues (360) should be \$102,560 per GL. The reported amount is understated by \$5,700.
  - Rescue Unit One Fund (102) - Miscellaneous Revenues (360) should be \$441 per GL. The reported amount is understated by \$24.
  - Street Fund (103) - Miscellaneous Revenues (360) should be \$24,422 per GL. The reported amount is overstated by \$87.
  - Transportation Benefit District Fund (104) - Miscellaneous Revenues (360) should be \$26,668 per GL. The reported amount is understated by \$3,372.
  - Drug Enforcement Fund (108) - Miscellaneous Revenues (360) should be \$260 per GL. The reported amount is understated by \$20.
  - Ambulance/EMS Fund (120) - Miscellaneous Revenues (360) should be \$7,434 per GL. The reported amount is understated by \$954.
  - Lodging Tax Fund (130) - Miscellaneous Revenues (360) should be \$10,328 per GL. The reported amount is understated by \$1,037.
  - Municipal Cap Improvement Fund (306) - Miscellaneous Revenues (360) should be \$8,654 per GL. The reported amount is understated by \$884.
  - Sewer M & O Fund (400) - Miscellaneous Revenues (360) should be \$45,770 per GL. The reported amount is understated by \$3,976.



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- Stormwater O & M Fund (409) - Miscellaneous Revenues (360) should be \$1,006 per GL. The reported amount is understated by \$65.
- Sanitation O & M Fund (410) - Miscellaneous Revenues (360) should be \$6,023 per GL. The reported amount is understated by \$588.
- Total general government expenditures (510) is overstated by \$1,473. Per the GL, total general government expenditures should be \$824,786. Below are the misstatements by fund:
  - Current Expense Fund (001) - General Government (510) should be \$800,893 per GL. The reported amount is overstated by overstated \$1,473.

This error is below our floor of \$2,000. Therefore, we will not add the error to the aggregation of misstatements.

- Total utilities expenditures (530) is understated by \$455. Per the GL, total utilities expenditures should be \$2,646,232. Below are the misstatements by fund:
  - Sewer O & M Fund (400) - Utilities (53) should be \$1,100,344 per GL. The reported amount is understated by 455.

This error is below our floor of \$2,000. Therefore, we will not add the error to the aggregation of misstatements.

### 2020

- We could not reconcile beginning cash and investments to within our expectations (exactly). There is a difference of approximately \$3,612 between the auditor's expectation of total beginning cash and investments and actual beginning cash and investments reported in the financial statements (overstatement).
- We could not reconcile revenues/non-revenues to cash deposits to within our expectations (1% or \$134,175). There is a difference of approximately \$218,203 between the auditor's expectation of total revenues and actual revenues reported in the financial statements (understatement).
- We could not reconcile expenditures/non-expenditures to cash withdrawals to within our expectations (1% or 119,045). There is a difference of approximately \$232,340 between the auditor's expectation of total expenditures and actual expenditures reported in the financial statements (understatement).
- We could not reconcile ending cash and investments to within our expectations (\$2,000 floor). There is a difference of approximately \$491 between the auditor's expectation of total ending cash and investments and actual ending cash and investments reported in the financial statements (overstatement).

In conjunction with the understanding of the financial statement preparation process documented in the permanent file and testing of year-end and off-book adjusting entries in the Management Override of Controls step, evaluate the completeness and appropriateness of any additions, adjustments, re-classifications or eliminations that are occurring between the GL and financial statements.

### C.3.PRG - Review Presentation & Disclosure

# City of Clarkston

**Procedure Step:** Statements & Notes

**Prepared By:** TLJ, 3/11/2022

**Reviewed By:** AMS, 3/16/2022

Purpose/Conclusion:

**Purpose:**

To determine whether statements are properly and clearly presented and whether note disclosures are complete, accurate and understandable and that disclosed events have occurred and pertain to the government.

**Conclusion:**

We determined statements are properly and clearly presented and note disclosures are complete, accurate and understandable and that disclosed events have occurred and pertain to the government, **with the exception of the following errors:**

**2019:**

- **Statement C4:**

- There is a difference of approximately \$16,533 between the auditor's expectation of total ending cash and investments and actual cash and investments reported in the financial statements (understatement).
  - Transportation Benefit District Fund ending cash and investments Reserved ending balance is understated by \$1,410,385 and unreserved balance is overstated by \$1,410,385
- Sewer M & O Fund ending cash and investments Reserved ending balance is understated by \$532,977 and unreserved balance is overstated by \$532,977

- **Notes to Financial Statements:**

- Note 1G - Reserved Portion of Ending Cash and Investments: The City's stated reserved ending cash and investment balances in the note does not tie to the financial statements and is understated by \$346,887.
- Note 2 - Budget Compliance: "202 - Capital Improvement" should be "306 - Municipal Capital Improvement Fund".
- Note 2 - Budget Compliance: Actual expenditures and variance for 105 - Street Reserve Fund is incorrect. Per the GL, actual expenditures is \$0. Overstated by \$6,311.
- Note 2 - Budget Compliance: Actual expenditures for fund 410 (Sanitation O & M Fund) does not tie to the GL. The presented amount is understated by \$42,922.27
- Note 3 - Deposits and Investments: The City did not include bank deposits in the note and total deposits and investments reported in the note (\$9,445,232) do not agree to ending cash and investments reported in the financial statements (\$9,418,121) by \$27,111 (understatement). In addition, there is a difference of approximately \$16,533 between the auditor's expectation of

## City of Clarkston

total ending cash and investments and actual cash and investments reported in the financial statements that may cause some of this difference.

- Note 7 - Risk Management: The City did not include language for self-insurance programs. Per the BARS Manual, "Self-insurance – If the city/county/district retained any risk, it should specifically describe the retained risk."
- Note 8 - OPEB Plans:

The following paragraph is recommended in the year of implementation:

*During the year ended December 31, 2019, the City adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.*

### 2020:

- **Statement C4:**

- We could not reconcile beginning cash and investments to within our expectations (exactly). There is a difference of approximately \$3,612 between the auditor's expectation of total beginning cash and investments and actual beginning cash and investments reported in the financial statements (overstatement).

- **Notes to Financial Statements:**

- Note 1G - Restricted and Committed Portion of Ending Cash and Investments: The City did not describe the specific purposes (not functions) and understated amounts of all ending cash and investments with restrictions and commitments in the notes by \$4,488,504.
- Note 2 - Budget Compliance: Actual expenditures and variance for 410 - Sanitation O & M Fund is incorrect. Per the GL, actual expenditures is \$1,257,203. Understatement of \$47,136.
- Note 2 - Budget Compliance: "202 - Capital Improvement" should be "306 - Municipal Capital Improvement Fund".
- Note 3 - Deposits and Investments: The City did not disclose bank deposits in its deposits and investments note and the amounts disclosed in the note do not agree to the financial statements by \$321,269 as the BARS Manual prescribes (understatement). Total deposits and investments reported in the note (\$10,628,712) do not agree to ending cash and investments reported in the financial statements (\$10,949,981). In addition, we could not reconcile ending cash and investments to within our expectations (\$2,000 floor). There is a difference of approximately \$491 between the auditor's expectation of total ending cash and investments and actual ending cash and investments reported in the financial statements (overstatement).
- Note 7 - Risk Management: Note does not tie to WCIA 2020 note template. In addition, the City did not include language for self-insurance programs. Per the BARS Manual, "Self-insurance – If the city/county/district retained any risk, it should specifically describe the retained risk."

We will aggregate these errors here: Aggregation of Misstatements (BARS Cash), assess the issues at LOR Summary, and issue a recommendation at Financial statement preparation.

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## Testing Strategy:

The following procedures are **required** for reviewing presentation and disclosure assertions (occurrence and rights and obligations, completeness, classification and understandability, accuracy and valuation) for the financial statements and notes.

### Review Presentation of Statements:

- Check that the following statements and schedules have been prepared, as applicable: a Statement C5 for fiduciary funds, a Schedule of Liabilities, a Schedule of Expenditures of Federal Awards and any other supplementary schedules as needed.
- Check that all required funds are presented in the financial statements. All funds should be presented, including fiduciary funds; see BARS part 4.1.5 and 4.1.6.

*For BARS cash basis presentations, component units are not included as part of the reporting entity as a fund on the C4 (regardless of whether they would be considered blended or discrete under GAAP criteria). Rather, they are required to be disclosed in the notes, along with any significant related party transactions. Also, if the entity acts as the treasurer or fiscal agent for the component unit, such activity would be reported as a fiduciary fund on the C5.*

*In general, we would expect any component units to be subject to a separate SAO audit. If not, auditors should carefully evaluate whether an audit is needed.*

- Compare classification of funds to fund names, reported activity and our understanding of the purpose of the fund.

*See the [Additional Risks | Classification Errors in Fund Type](#) step for testing strategy considerations to verify fund type classification. If significant follow-up procedures are needed, auditors may identify this as an Additional Risk in the plan in order to more easily plan and perform targeted testing in a separate step.*

- If statements were obtained from LGCS (that is, generated by online filing), presentation will match the BARS manual and the Yellow Flag report can be used to check footing, compare to prior year and compare financial statement relationships. Otherwise, check these manually.

### Review Note Disclosures:

- Scan notes to check for the following. Refer to the applicable BARS manual for guidance.
  - Missing disclosures.
  - Disclosures that haven't been updated from the prior year.
  - Information consistent with audit results and known activities and events.

## City of Clarkston

*The note disclosures in the Cash Basis BARS manual [part 4.6](#) only represent an example. Entities may deviate from the language or order so long as the notes contain required information.*

*Auditors should normally communicate any spelling, grammar, font or other similar cosmetic issues for correction as verbal comments. These corrections are considered trivial and should not be included on the aggregation of misstatements unless they have an effect on fair presentation.*

- Check footing of tables and agree amounts or totals from the notes to the financial statements or underlying accounting records. If errors are noted, follow-up to determine how the error occurred, as it may indicate control deficiencies and other potential errors made in the statement preparation process.
- Determine whether the disclosed information is clearly expressed (understandable, rather than confusing or misleading).

In addition to minimum required procedures above, auditors should **consider** additional procedures based on risk.

### ***Multi-Year Cycles (if applicable):***

For audits on multi-year cycles, separate statements and schedules should be presented for each year and that notes may either be separately presented for each year or - if combined - must otherwise completely cover all years.

Guidance/Criteria.*
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### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

#### **BARS Manual prescribes format for statements and schedules:**

- [4.3.12](#) for statement C4
- [4.3.13](#) for statement C5
- [4.6](#) for note disclosures

**BARS [3.1.7.50](#) Type of Funds** - contains fund type definitions

**BARS [Part 1](#) Chart of Accounts** - contains account classification definitions

**AU-C 330.26 and .A73** describes the auditor's responsibilities with regard to auditing note disclosures

# City of Clarkston

Record of Work Done:

## **2019**

See auditor workpapers here: [2019 C4 GL Tie out](#) and [2019 Notes to Financial Statements Review](#)

The following procedures are **required** for reviewing presentation and disclosure assertions (occurrence and rights and obligations, completeness, classification and understandability, accuracy and valuation) for the financial statements and notes.

### **Review Presentation of Statements:**

- Check that the following statements and schedules have been prepared, as applicable:

We confirmed the following statements and schedules were prepared by the City:

- Statement C4
- Statement C5 - Not applicable. The City does not have fiduciary activities to report.
- Notes to Financial Statements
- Schedule of Liabilities (Schedule 09)
- Schedule 15
- Schedule 16 and Notes to Schedule 16
- Schedule 19

Note, Schedules 15 and 19 are for information purposes and not included in the final reporting package. In addition, the 2019 Schedule 16 and Notes to Schedule 16 will not be included in the final reporting package as the City did not expend \$750,000 or more in federal funds.

- Check that all required funds are presented in the financial statements. All funds should be presented, including fiduciary funds; see BARS part 4.1.5 and 4.1.6.

We used the City's GL trial balance report and CAATs data and determined all required funds are presented in the financial statements. The City does not have fiduciary activities. Therefore a Statement C5 was not prepared.

- Compare classification of funds to fund names, reported activity and our understanding of the purpose of the fund.

We compared the classification of funds to fund names (see: [Fund Classification](#)), reported activity and our understanding of the purpose of the fund and noted no issues.

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- If statements were obtained from LGCS (that is, generated by online filing), presentation will match the BARS manual and the Yellow Flag report can be used to check footing, compare to prior year and compare financial statement relationships. Otherwise, check these manually.

Statements were obtained from LGCS. Therefore presentation matches the BARS manual. We used the Yellow Flag report [[Yellow Flag Report \(2019 and 2020\)](#)] to check footing, compare to prior year, and compare financial relationships. We also performed re-calculations to verify proper footing and financial relationships. In addition, we used the FY2018 audited financial statements to verify prior year figures.

### **Review Note Disclosures:**

- Scan notes to check for the following. Refer to the applicable BARS manual for guidance.

We scanned the notes for the following and referred to the applicable BARS manual for guidance.

- Missing disclosures.

Identified missing disclosures are included in the FY19 Summary of Identified Misstatements section below.

- Disclosures that haven't been updated from the prior year.

Identified disclosures that haven't been updated from the prior year are included in the FY19 Summary of Identified Misstatements section below.

- Information consistent with audit results and known activities and events.

Information is consistent with audit results, known activities, and events.

- Check footing of tables and agree amounts or totals from the notes to the financial statements or underlying accounting records. If errors are noted, follow-up to determine how the error occurred, as it may indicate control deficiencies and other potential errors made in the statement preparation process.

We checked the footing of tables and agreed amounts and totals from the notes to the financial statements to underlying accounting records. Errors identified are included in the FY19 Summary of Identified Misstatements sections below.

- Determine whether the disclosed information is clearly expressed (understandable, rather than confusing or misleading).

We determined most disclosed information is clearly expressed (understandable, rather than confusing or misleading), except for errors included in the FY19 Summary of Identified Misstatements section below.

### **FY19 Summary of Identified Misstatements:**

We added the following errors to the aggregation of misstatements [[Aggregation of Misstatements \(BARS Cash\)](#)]:

- **Statement C4:**

- There is a difference of approximately \$16,533 between the auditor's expectation of total ending cash and investments and actual cash and investments reported in the financial statements (understatement).
  - Transportation Benefit District Fund ending cash and investments Reserved ending balance is understated by \$1,410,385 and unreserved balance is overstated by \$1,410,385

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- Sewer M & O Fund ending cash and investments Reserved ending balance is understated by \$532,977 and unreserved balance is overstated by \$532,977
- **Notes to Financial Statements:**
  - Note 1G - Reserved Portion of Ending Cash and Investments: The City's stated reserved ending cash and investment balances in the note does not tie to the financial statements and is understated by \$346,887.
  - Note 2 - Budget Compliance: "202 - Capital Improvement" should be "306 - Municipal Capital Improvement Fund".
  - Note 2 - Budget Compliance: Actual expenditures and variance for 105 - Street Reserve Fund is incorrect. Per the GL, actual expenditures is \$0. Overstated by \$6,311.
  - Note 2 - Budget Compliance: Actual expenditures for fund 410 (Sanitation O & M Fund) does not tie to the GL. The presented amount is understated by \$42,922.27
  - Note 3 - Deposits and Investments: The City did not include bank deposits in the note and total deposits and investments reported in the note (\$9,445,232) do not agree to ending cash and investments reported in the financial statements (\$9,418,121) by \$27,111 (understatement). In addition, there is a difference of approximately \$16,533 between the auditor's expectation of total ending cash and investments and actual cash and investments reported in the financial statements that may cause some of this difference.
  - Note 7 - Risk Management: The City did not include language for self-insurance programs. Per the BARS Manual, "Self-insurance – If the city/county/district retained any risk, it should specifically describe the retained risk."
  - Note 8 - OPEB Plans:  
The following paragraph is recommended in the year of implementation:

*During the year ended December 31, 2019, the City adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.*

## **2020**

See auditor workpapers here: [2020 C4 GL Tie out](#) and [2020 Notes to Financial Statements Review](#)

The following procedures are **required** for reviewing presentation and disclosure assertions (occurrence and rights and obligations, completeness, classification and understandability, accuracy and valuation) for the financial statements and notes.

### **Review Presentation of Statements:**

- Check that the following statements and schedules have been prepared, as applicable:  
[We confirmed the following statements and schedules were prepared by the City:](#)



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- Statement C4
- Statement C5 - Not applicable. The City does not have fiduciary activities to report.
- Notes to Financial Statements
- Schedule of Liabilities (Schedule 09)
- Schedule 15
- Schedule 16 and Notes to Schedule 16
- Schedule 19

Note, Schedules 15 and 19 are for information purposes and not included in the final reporting package.

- Check that all required funds are presented in the financial statements. All funds should be presented, including fiduciary funds; see BARS part 4.1.5 and 4.1.6.

We used the City's GL trial balance report and CAATs data and determined all required funds are presented in the financial statements. The City does not have fiduciary activities. Therefore a Statement C5 was not prepared.

- Compare classification of funds to fund names, reported activity and our understanding of the purpose of the fund.

We compared classification of funds to fund names (see: Fund Classification), reported activity and our understanding of the purpose of the fund and noted no issues.

- If statements were obtained from LGCS (that is, generated by online filing), presentation will match the BARS manual and the Yellow Flag report can be used to check footing, compare to prior year and compare financial statement relationships. Otherwise, check these manually.

Statements were obtained from LGCS. Therefore presentation matches the BARS manual. We used the Yellow Flag report [Yellow Flag Report (2019 and 2020)] to check footing, compare to prior year, and compare financial relationships. We also performed re-calculations to verify proper footing and financial relationships. In addition, we used the FY2019 financial statements to verify prior year figures.

### Review Note Disclosures:

- Scan notes to check for the following. Refer to the applicable BARS manual for guidance.

We scanned the notes for the following and referred to the applicable BARS manual for guidance.

- Missing disclosures.

Identified missing disclosures are included in the FY20 Summary of Identified Misstatements section below.

- Disclosures that haven't been updated from the prior year.

Identified disclosures that haven't been updated from the prior year are included in the FY20 Summary of Identified Misstatements section below.

## City of Clarkston

- Information consistent with audit results and known activities and events.

Information is consistent with audit results, known activities, and events.

- Check footing of tables and agree amounts or totals from the notes to the financial statements or underlying accounting records. If errors are noted, follow-up to determine how the error occurred, as it may indicate control deficiencies and other potential errors made in the statement preparation process.

We checked the footing of tables and agreed amounts and totals from the notes to the financial statements to underlying accounting records. Errors identified are included in the FY20 Summary of Identified Misstatements sections below.

- Determine whether the disclosed information is clearly expressed (understandable, rather than confusing or misleading).

We determined most disclosed information is clearly expressed (understandable, rather than confusing or misleading), except for errors included in the FY20 Summary of Identified Misstatements section below.

### FY20 Summary of Identified Misstatements:

We added the following errors to the aggregation of misstatements [Aggregation of Misstatements (BARS Cash)]:

- **Statement C4:**

- We could not reconcile beginning cash and investments to within our expectations (exactly). There is a difference of approximately \$3,612 between the auditor's expectation of total beginning cash and investments and actual beginning cash and investments reported in the financial statements (overstatement).

While correcting the 2019 ending fund balances, Steve Austin, re-evaluated the ending fund balances for 2020 and determined the following funds were incorrectly classified:

- Transportation Benefit District Fund ending cash and investments Restricted balance is understated by \$1,257,575 and Committed balance is overstated by \$1,257,575.
- Sewer M & O Fund ending cash and investments restricted ending balance is understated by \$106,344 and Committed ending balance is overstated by \$106,344

We will not aggregate these classification errors because the City identified them during their review of other corrections.

- **Notes to Financial Statements:**

- Note 1G - Restricted and Committed Portion of Ending Cash and Investments: The City did not describe the specific purposes (not functions) and understated amounts of all ending cash and investments with restrictions and commitments in the notes by \$4,488,504.
- Note 2 - Budget Compliance: Actual expenditures and variance for 410 - Sanitation O & M Fund is incorrect. Per the GL, actual expenditures is \$1,257,203. Understatement of \$47,136.
- Note 2 - Budget Compliance: "202 - Capital Improvement" should be "306 - Municipal Capital Improvement Fund".

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- **Note 3 - Deposits and Investments:** The City did not disclose bank deposits in its deposits and investments note and the amounts disclosed in the note do not agree to the financial statements by \$321,269 as the BARS Manual prescribes (understatement). Total deposits and investments reported in the note (\$10,628,712) do not agree to ending cash and investments reported in the financial statements (\$10,949,981). In addition, we could not reconcile ending cash and investments to within our expectations (\$2,000 floor). There is a difference of approximately \$491 between the auditor's expectation of total ending cash and investments and actual ending cash and investments reported in the financial statements (overstatement).
- **Note 7 - Risk Management:** Note does not tie to WCIA 2020 note template. In addition, the City did not include language for self-insurance programs. Per the BARS Manual, "Self-insurance – If the city/county/district retained any risk, it should specifically describe the retained risk."

In addition, the following trivial errors for both 2019 and 2020 were communicated to Steve Austin, Clerk Treasurer, but were not included on the aggregation of misstatements:

### 2019:

- Remove header "MCAG NO. 0197" from Notes to Financial Statements.
- Notes to Financial Statements: Header should state "For the Year Ended December 31, 2019".
- Note 1 - Summary of Significant Accounting Policies: "non-charter code city" should be disclosed as, "code city with a mayor-council form of government".
- Note 1 - Summary of Significant Accounting Policies: "Ending balances are not presented using the classifications defined in GAAP" should be disclosed as, "Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP."
- Note 1A - Governmental Fund Type: Debt Service Funds should be removed as the City does not report any debt service funds on the Statement C4.
- Note 1A - Fiduciary Fund Types: Fiduciary Fund Types language should be removed since the City does not report any fiduciary activities or a Statement C5.
- Note 1D - Capital Assets: Missing the following language, "and an estimated useful life in excess of \_\_ years."
- Note 2 - Budget Compliance: Actual expenditures for fund 001 (CE Fund) in the GL are overstated by \$1,269.37 .
- Note 5 - Debt Service Requirements: Total (\$13,834,541) does not tie to Schedule 09 ending balance of \$13,834,447.
- Note 6A - State Sponsored Pension Plans - Allocation % for PERS 1 should be "0.011766%".
- Note 6A - State Sponsored Pension Plans - Liability for PERS 1 should be "\$452,444".
- Note 8 - OPEB - Note states the plan is administered by Clerk/Treasurer, Steve Austin. However, the plan is administered by the City. Although most elements were included in the note disclosure, it is presented in question-answer format. The City may want to consider using the BARS note template example as follows:

*The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City. The plan pays for*

## City of Clarkston

*100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2019, the plan had eleven members, all retirees. As of December 31, 2019, the City's total OPEB liability was \$5,844,896, as calculated using the alternative measurement method. For the year ended December 31, 2019, the City paid \$203,064 in benefits.*

- Note 1 - Summary of Significant Accounting Policies: Remove "\_" between "general" and "purpose".
- Note 1H - Other Financing Sources or Uses: The City can choose to remove this language as it is not required by the BARS manual or expand on what Other Financing Sources or Uses consist of, as there is more activity than just transfers.
- "Reporting" between Note 1 and Note 2 should be removed.
- Note 3 - Deposits and Investments: Amounts in table should be reported as whole numbers.
- Note 3 - Deposits and Investments: Unused rows in table should be removed.
- Note 6A - State Sponsored Pension Plans: "PERS, LEOFF" should be disclosed as "Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)".
- Note 6A - State Sponsored Pension Plans - Remove "0" from "p0lan".

### 2020:

- Remove header "MCAG NO. 0197" from Notes to Financial Statements.
- Note 1 - Summary of Significant Accounting Policies: "non-charter code city" should be disclosed as, "code city with a mayor-council form of government".
- Note 1 - Summary of Significant Accounting Policies: "Ending balances are not presented using the classifications defined in GAAP" should be disclosed as, "Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP."
- Note 1A - Governmental Fund Type: Debt Service Funds should be removed as the City does not report any debt service funds on the Statement C4.
- Note 1A - Fiduciary Fund Types: Fiduciary Fund Types and Custodial Funds language should be removed since the City does not report any fiduciary activities or a Statement C5.
- Note 1D - Capital Assets: Missing the following language, "and an estimated useful life in excess of \_\_\_ years."
- Note 2 - Budget Compliance: Actual expenditures and variance for 001 - General Fund is incorrect. Per the GL, actual expenditures is \$4,569,786. Overstatement of \$107.
- Note 2 - Budget Compliance: Actual expenditures and variance for 400 - Sewer O & M Fund is incorrect. Per the GL, actual expenditures is \$2,236,227. Overstatement of \$244.
- Note 8 - OPEB Plans: Note states the plan is administered by Clerk/Treasurer, Steve Austin. However, the plan is administered by the City. Although most elements were included in the note disclosure, it is presented in question-answer format. The City may want to consider using the BARS note template example as follows:

*The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2020, the plan had nine members, all*

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*retirees. As of December 31, 2020, the City's total OPEB liability was \$4,744,921, as calculated using the alternative measurement method. For the year ended December 31, 2020, the City paid \$201,237 in benefits.*

- Note 1 - Summary of Significant Accounting Policies: Remove "\_" between "general" and "purpose".
- Note 1H - Other Financing Sources or Uses: The City can choose to remove this language as it is not required by the BARS manual or expand on what Other Financing Sources or Uses consist of, as there is more activity than just transfers.
- Note 3 - Deposits and Investments: Amounts in table should be reported as whole numbers.
- Note 3 - Deposits and Investments: Unused rows in table should be removed.
- Note 6A - State Sponsored Pension Plans: "PERS, LEOFF" should be disclosed as "Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)".
- Note 6A - State Sponsored Pension Plans - Remove "0" from "p0lan".

### C.3.PRG - Review Presentation & Disclosure

*Procedure Step:* SI and OI  
*Prepared By:* TLJ, 11/15/2021  
*Reviewed By:* AMS, 3/4/2022

Purpose/Conclusion.\*

#### **Purpose:**

As applicable, to (1) determine whether supplemental information (SI - for which we will give an opinion in relation to the financial statements as a whole) is fairly presented in accordance with applicable criteria and (2) determine whether other information (OI - for which no assurance will be given) is not misleading.

#### **Conclusion:**

We (1) determined that whether supplemental information (SI - for which we will give an opinion in relation to the financial statements as a whole) is fairly presented in accordance with applicable criteria and (2) the County does not report other information (OI - for which no assurance will be given).

Testing Strategy.\*

Check that a Schedule of Liabilities and Schedule of Expenditures of Federal Awards (if applicable) are included as supplemental schedules. If

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several years of statements are covered by one audit report, check that required schedules are presented for each statement period.

To test supplemental information, auditors are **required** to perform the following procedures. Materiality used for purposes of this testing would be based on a level that represents the entire government (not individual opinion units). If the auditor's report on financial statements contains a qualified, adverse or a disclaimer of opinion, *auditors must contact Team Audit Support for assistance with modifying the audit report.*

### **Schedule of Liabilities (Schedule 9)**

- Obtain an understanding of the preparation process, specifically:
  - Methods of preparing the information (such as calculations for compensated absences)
  - Whether methods have changed from the prior year and if so, the reasons for the change.
  - Any significant assumptions or interpretations underlying the measurement of this information.
  - This schedule is required and defined by the BARS Manual. Therefore, our understanding about the purpose of supplementary information and criteria for preparing it cited in the Policy / Standards tab.
  - Based on BARS Manual requirements for the schedule and Audit Reporting Standards Manual requirements for our report, conditions required by AU-C 725.05 are determined to be met.
- If statements were obtained from LGCS (that is, generated by online filing), presentation will match the BARS manual, contain valid classifications and foot. Otherwise, manually determine proper presentation.
- If statements were obtained from LGCS, use the Yellow Flag report to compare to prior year and other financial statement relationships. Otherwise, check these relationships manually.
- Trace figures to the underlying accounting and other records.
- Read the schedule, considering results of procedures performed and knowledge obtained during the audit.
- **Consider** further testing based on assessed risk, such as recalculating selected liabilities or performing discovery tests to determine if all applicable liabilities were included on the schedule.

Materiality used for testing would be the same level determined in planning for the financial statements taken as a whole.

### **Schedule of Expenditures of Federal Awards (Schedule 16)**

This schedule is only required to be included as a supplemental schedule if a Single Audit is also being done. See the Planning & Audit Plan | Planning | Single Audit Planning | Schedule of Expenditures of Federal Awards step.

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### **Additional Supplemental Information (on which we will give an "in-relation-to" opinion)**

If a client requests additional schedules to be included with the published financial report that are not required by the BARS Manual, auditors are **required** to:

- Work with Team Audit Support if unclear whether such additional information would be considered "supplemental" or "other" information and whether conditions required by AU-C 725.05 are met.
- Obtain an understanding of the preparation process for supplementary information, specifically:
- The purpose of supplementary information and criteria for preparing it.
- Methods of preparing the information (such as calculations for compensated absences)
- Whether methods have changed from the prior year and if so, the reasons for the change.
- Any significant assumptions or interpretations underlying the measurement of this information.
- Trace figures to the underlying accounting and other records.
- Read the schedule, considering results of procedures performed and knowledge obtained during the audit.
- Determine that the form and content complies with the criteria.
- Add representations required by AU-C 725.06 to the management representation letter.
- **Consider** further testing based on assessed risk

Materiality used for purposes of this testing would be based on a level that represents the entire government (not individual opinion units).

### **Other Information (on which no assurance will be given)**

If a client requests additional information to be included with the published financial report that is not required by the BARS Manual, auditors are **required** to do the following. These procedures should be completed **prior to** report issuance:

- Work with Team Audit Support to determine if such additional information would be considered "supplemental" or "other" information.
- Read the sections and consider whether there are material inconsistencies with the audited financial statements.
- Communicate with those charged with governance (1) the auditor's responsibility with respect to the information, (2) the nature of the procedures performed, and (3) the results. This communication can be done at the exit conference.
- The auditor will need to take specific actions if material inconsistencies are noted between this information and the audited financial statements, or material misstatements of fact. If management refuses to make the necessary revisions, the refusal should also be communicated to the governing body. Auditors should contact Team Audit Support to determine the effect of that refusal on the audit.

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- Consider further review based on assessed risk, such as comparing to information presented in the prior financial statement report, reviewing supporting documentation for selected information, and considering results of procedures performed and knowledge obtained during the audit.

Guidance/Criteria:

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**BARS [3.4.10](#) Solid Waste Utilities: Closure and Post-Closure Cost Accounting** (*applies to cities and counties only*)

**BARS [3.4.11](#) Accounting for LOCAL Program Financing Activities**

**BARS [3.4.14](#) Refunding Debt**

**BARS [3.6.10](#) Working Advances from DSHS** (*applies to counties only*)

**BARS [4.14.13](#) Liabilities Schedule 09**

**BARS [4.14.5](#) Expenditures of Federal Awards (Schedule 16)**

### **AU-C 725 Supplementary Information in Relation to the Financial Statements as a Whole**

The auditor is responsible to perform additional procedures on supplemental information, using the same materiality level as with the financial statements. In our audit report, we will opine on whether supplemental information is "fairly presented in all material respects, in relation to the financial statements as a whole".

Such an opinion is only appropriate for information that meets was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements and relates to the same period as the financial statements.

### **AU-C 720 The Auditor's Responsibilities Relating to Other Information Included in Annual Reports**

Other information consists of all other financial or non-financial information presented with the financial statements other than Required Supplementary Information and Supplementary Information. The auditor is only responsible to check that other information presented with the financial statements is not materially inconsistent with the financial statements. No assurance is given on other information in our audit report.

*Audit reports should not include information other than the minimum expected as shown in the Audit Report Standards Manual Part 3, chapter 3. If clients are required by grants or contracts to include additional schedules, or if clients simply want to include a supplemental schedule with*



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*the financial statements, auditors should notify their manager so that the effect on the audit budget and the need for an engagement letter can be evaluated.*

### Record of Work Done:

Check that a Schedule of Liabilities and Schedule of Expenditures of Federal Awards (if applicable) are included as supplemental schedules. If several years of statements are covered by one audit report, check that required schedules are presented for each statement period.

We checked that a Schedule of Liabilities and Schedule of Expenditures of Federal Awards are included as supplemental schedules for 2019 and 2020. We are performing a two-year financial statement audit.

To test supplemental information, auditors are **required** to perform the following procedures. Materiality used for purposes of this testing would be based on a level that represents the entire government (not individual opinion units). If the auditor's report on financial statements contains a qualified, adverse or a disclaimer of opinion, *auditors must contact Team Audit Support for assistance with modifying the audit report.*

#### **Schedule of Liabilities (Schedule 9)**

See auditor workpapers here: [2019 Schedule 09 Tie Out and Review](#) and [2020 Schedule 09 Tie Out and Review](#)

- Obtain an understanding of the preparation process, specifically:

We met with Steve Austin, Clerk Treasurer to obtain an understanding of the Schedule of Liabilities (Schedule 09) preparation process. Specifically, we discussed the following:

- Methods of preparing the information (such as calculations for compensated absences)

Compensated Absences: Steve explained that he prepares the compensated absences portion of the Schedule 09 using accrual reports generated from Vision. Prior to inputting them into LGCS, the Vision-generated leave accrual reports are reviewed by Deputy Payroll Clerk, Erica Fisher to ensure the leave amounts appear correct and are accurate. From the reports, Steve enters the amounts into LGCS calculated with the payroll taxes of 7.5%.

Lease Purchases & General Obligation Debt/Liabilities Bonds: Per our review of the City Council meeting minutes we did not identify any new leases or General Obligation Debt/Liabilities in FY2019 and FY2020. The Clerk Treasurer uses the applicable amortization schedule amounts for the leases and general obligation/debt liabilities so that liabilities are properly reported on the Schedule 09..

Pension (GASB 68) Liability: We evaluated the calculation and the preparation of the pension liability at [\[Pension Liability\]](#).

OPEB (GASB 75) Liability: We evaluated the calculation and the preparation of the OPEB liability at [\[OPEB Liability\]](#).

- Whether methods have changed from the prior year and if so, the reasons for the change.

Per inquiry with Clerk Treasurer Steve Austin, methods have not changed since the prior year except for the OPEB liability which is new for 2019.

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- Any significant assumptions or interpretations underlying the measurement of this information.

Per inquiry with Clerk Treasurer Steve Austin, there are no significant assumptions or interpretations underlying the measurement of this information.

- This schedule is required and defined by the BARS Manual. Therefore, our understanding about the purpose of supplementary information and criteria for preparing it cited in the Policy / Standards tab.

The City prepared the schedule as required and defined by the BARS Manual.

- Based on BARS Manual requirements for the schedule and Audit Reporting Standards Manual requirements for our report, conditions required by AU-C 725.05 are determined to be met.

Based on BARS Manual requirements for the Schedule 9 and Audit Reporting Standards Manual requirements for our report, we determined conditions required by AU-C 725.05 were met.

- If statements were obtained from LGCS (that is, generated by online filing), presentation will match the BARS manual, contain valid classifications and foot. Otherwise, manually determine proper presentation.

Statements were obtained from LGCS. Therefore, presentation matches the BARS manual, contains valid classifications, foots, and cross-foots.

- If statements were obtained from LGCS, use the Yellow Flag report to compare to prior year and other financial statement relationships. Otherwise, check these relationships manually.

We used the Yellow Flag report to compare prior year and other financial statement relationships. See [\[Yellow Flag Report\]](#). The due date for PWTF Loan PC 12-951-035 changed from 6/1/2021 in 2019 to 6/1/2041 in 2020. The due date should be reported as 6/1/2041 on the 2020 Schedule 09. This is trivial and not aggregated.

- Trace figures to the underlying accounting and other records.

We traced figures to prior year financial statements, underlying accounting and other records here: [2019 Schedule 09 Tie Out and Review](#) and [2020 Schedule 09 Tie Out and Review](#). We noted the following trivial errors for both 2019 and 2020 that were communicated to Steve Austin, Clerk Treasurer, but were not included on the aggregation of misstatements:

### 2019 Schedule 09:

- Reductions in pension liabilities is understated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1. The ending pension liability for PERS 1 should be \$452,444 instead of \$453,214. Reductions should be \$114,944.
- Ending pension liabilities is overstated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1. The ending pension liability for PERS 1 should be \$452,444 instead of \$453,214. The ending balance should be \$600,010.
- Total revenue and other (non G.O.) Debt/Liabilities reductions should be \$665,864, and ending balance should be \$12,180,670.
- Total liabilities reductions should be \$1,102,306, and ending balance should be \$20,763,422.

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- "Pension Liability" should be disclosed as "Pension Liabilities".
- "LEOFF 1" should be disclosed as "OPEB Liabilities".

### 2020 Schedule 09:

- Due date for PWTF Loan PC 12-951-035 should be 6/1/2041.
  - Beginning pension liabilities is overstated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1 in 2019. The beginning balance should be \$600,010.
  - Reductions in pension liabilities is overstated by \$770 as a result of incorrectly calculating the ending pension liability for PERS 1 in 2019. Reductions should be \$176,854.
  - Total revenue and other (non G.O.) Debt/Liabilities beginning balance should be \$12,180,670 and reductions \$1,818,979.
  - Total liabilities beginning balance should be \$20,763,422 and reductions \$2,262,046.
    - "Pension Liability" should be disclosed as "Pension Liabilities".
  - "LEOFF 1" should be disclosed as "OPEB Liabilities".
- Read the schedule, considering results of procedures performed and knowledge obtained during the audit.

We read the schedule and determined it is consistent with the results of procedures performed and knowledge obtained during the audit.  
No other exceptions noted.

### **Schedule of Expenditures of Federal Awards (Schedule 16)**

This schedule is only required to be included as a supplemental schedule if a Single Audit is also being done. See the Planning & Audit Plan | Planning | Single Audit Planning | Schedule of Expenditures of Federal Awards step at: Schedule of Expenditures of Federal Awards.

### **Additional Supplemental Information (on which we will give an "in-relation-to" opinion)**

Not applicable. The City is not requesting additional schedules to be included with the published financial report that are not required by the BARS Manual.

### **Other Information (on which no assurance will be given)**

Not applicable. The City is not requesting additional information to be included with the published financial report that is not required by the BARS Manual.

### **Risks Identified During Planning**

No items of concern were identified during review of financial statements.

# City of Clarkston

## C.3.PR.G - Review Presentation & Disclosure

**Procedure Step:** Consistency of Statements

**Prepared By:** TLJ, 11/15/2021

**Reviewed By:** HVB, 12/31/2021

Purpose/Conclusion.

**Purpose:**

To evaluate consistency of the financial statements with those of the preceding period.

**Conclusion:**

We determined that financial statements are comparable with those of the prior period. However, we will need to add an emphasis of matter paragraph to the financial report for the OPEB liability.

Testing Strategy.

*Emphasis – Effective FY2019, cash basis entities are required to disclose OPEB liabilities. If the new disclosed OPEB liability is significant, the audit report should emphasize the note discussing the implementation of this new accounting guidance. Example language for implementation of a new accounting principle (for regulatory basis) can be found in the Audit Reporting Standards (ARS) manual Part 3, Chapter 9, example FS6b.*

*Emphasis – Effective FY2017, cash basis entities are required to report ALL fiduciary funds on the C-5. These changes are to align the reporting with GAAP by:*

- 1. Changing the reporting by individual fund to reporting by fiduciary fund type*
- 2. Changing from revenues, other increases and financing sources, expenditures and other decreases to simply "Additions" and "Deductions".*
- 3. Including special purpose district agency funds*

*We expect impact of the changes to be material to Counties. Auditors should verify note disclosure describing the change is presented. Auditors should include an emphasis of matter paragraph regarding the matter.*

*BARS required note disclosure regarding the changes is located in the BARS Cash Basis manual at Note X - Fiduciary Activities.*

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*Additionally, when tying the C-5 beginning balance to PY, auditors should check that the prior year ending balance, plus the amount disclosed in the Note ties to this year's C-5 beginning balance.*

To determine whether financial statements are comparable to those of the prior period, auditors are **required** to perform the following procedures:

- Identify changes that could impact comparability:
  - Implementation of any new standards
  - Other changes in accounting principles
  - Changes in the reporting entity

*Changes in reporting entity include changes in component units, mergers, annexations, and acquisitions and disposals of operations.*

- Prior period adjustments
- Changes in classification

*When classification of a certain balance or transaction stream is changed, auditors should determine whether the change represents a change in accounting principles or correction of a prior period misstatement.*

- Changes should be evaluated both individually and in aggregate to determine whether they represent a material effect on comparability of financial statements with those of the prior period. If so, an emphasis of matter paragraph must be included in the report.

*An emphasis of matter paragraph (as opposed to an "other matters" paragraph) is presumed since any such change would need to be disclosed under GAAP. Lack of disclosure (or incorrect accounting for) of any non-trivial change would be considered a misstatement. Contact Team Audit Support for questions or assistance with this evaluation, if necessary.*

Guidance/Criteria:
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

For comparative presentations, consistency should be evaluated between periods presented as well as consistency of the earliest period presented with the preceding period.

### **AUDIT CRITERIA**

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Key criteria that auditors will likely use when testing this area.

**AU-C 708 Consistency of Financial Statements** - describes required procedures to evaluate consistency of financial statements with those of the preceding period

Record of Work Done:

Based on review of note disclosures and procedures performed during the course of the audit, we noted the following:

### New Standards

Financial statements reflect implementation of the following new accounting standards:

- OPEB Reporting for cash basis entities - The City disclosed its OPEB liabilities on its Schedule 09 and Notes to Financial Statements. As identified in the testing strategy, auditors are required to document their conclusions on the materiality of the new OPEB accounting guidance. We would expect in most cases for the new accounting guidance to be evaluated as material and emphasized in the report. As this is a significant liability, we will emphasize this in the audit report.

### Other Changes in Accounting Principle

Financial statements reflect no other changes in accounting principles.

### Changes in Reporting Entity

Financial statements reflect no changes in the reporting entity.

### Prior Period Adjustments

Financial statements reflect no prior period adjustments.

### Significant Changes in Classification

We identified no significant changes in classification from prior financial statements.

## C.4.PR.G - Concluding Financial Audit Procedures

*Procedure Step:* Subsequent Events

# City of Clarkston

**Prepared By:** HVB, 3/18/2022

**Reviewed By:** AMS, 3/18/2022

## Purpose/Conclusion.

### **Purpose:**

To understand controls over subsequent events, identify any material subsequent events and evaluate whether such events were properly reported or disclosed.

### **Conclusion:**

We gained an understanding of internal controls over subsequent events, noting **no** control deficiencies

We determined that subsequent events are **properly reported and disclosed**.

## Testing Strategy.

The following procedures are **required** to review for subsequent events:

### **STEP 1: Controls over Subsequent Events**

Obtain an understanding of procedures or controls used by management to identify subsequent events, including subsequent events for any significant components.

*Weaknesses in internal controls over subsequent events should be evaluated in the same manner as any other control deficiency, although the system is not presumed to be material unless identified as such on the material balance spreadsheet.*

### **STEP 2: Identify Subsequent Events**

Review for potential subsequent events by:

- Reviewing minutes up to the audit report date or as nearly as practicable.
- Reviewing FAWF for news articles or other items that may indicate a subsequent event up to the audit report date or as nearly as practicable.
- Review EIS and consider current results of other SAO audits or engagements, if any, up to the audit report date or as nearly as practicable.
- Inquiry with management to determine whether any significant changes occurred subsequent to the fiscal year end. This assertion will be confirmed in the management representation letter.

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- Review interim financial statements, if any.

*In performing these procedures, the auditor should specifically be alert for any of the following **examples** potential subsequent events requiring adjustment to the financial statements:*

- *Settlement or resolution of a major estimated liability.*
- *Significant differences in actual vs expected outcomes of accounting estimates (such as actual payments related to estimated liabilities or actual collections related to receivable allowances).*
- *Occurrence of a major lawsuit or contingency if the event causing the liability had taken place prior to fiscal year end.*

*In performing these procedures, the auditor should specifically be alert for any of the following **examples** potential subsequent events requiring disclosure:*

- *Initiation or settlement of significant litigation.*
- *Issuance or refunding of long-term debt.*
- *Significant casualty, investment or other losses.*
- *Significant unresolved strike at the time of financial report issuance.*
- *Significant impairments to the government's ability to provide services or continue operations.*
- *Changes to the reporting entity or boundaries.*
- *Major changes in the scope of the government's programs or services that are anticipated to have a significant effect on future statements.*

Auditors should also **consider** additional procedures based on risks identified or follow-up procedures to verify information obtained in minutes, news articles or inquiry or to obtain additional information to better evaluate potential subsequent events.

### **STEP 3: Evaluate Subsequent Events for Proper Reporting and/or Disclosure**

If applicable, auditors are **required** to follow up on reporting and disclosure for any potential subsequent events identified with procedures sufficient to verify and evaluate adjustments or disclosures.

Guidance/Criteria.†

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [6410](#) - Subsequent Events**



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## **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

Cash BARS [Note X - Other Disclosures](#) - includes a definition of subsequent events in the instructions

Record of Work Done:

### **STEP 1: Controls over Subsequent Events:**

Steve Austin, City Clerk/Treasurer, prepares the financial statements and notes. He is involved in the daily operations of the City and is aware of the need to disclose subsequent events, i.e. unusual and significant events or transactions. Steve is also a part of multiple committees (including the finance committee) with the council and Mayor. Due to the relatively small size of the City, Steve is aware of significant events/activities that would require disclosure.

### **STEP 2: Identification of Subsequent Events:**

In addition to general procedures performed during the course of the audit, we performed the following procedures to identify potential subsequent events affecting any component of the government or part of the financial audit (report, statements, notes, SI or OI):

- Updated our review of minutes up to 3/14/2022 (as near as practicable to the report date) as documented here [[Meeting Minutes Review - Clarkston](#)]
- Checked EIS and updated our review of Other Engagements & FAWF up to 3/18/2022 as documented in the planning step [[Other Engagements & FAWF](#)].
- Inquired about any significant changes, events or transactions occurring after year-end with Steve Austin, City Clerk Treasurer on 3/18/2022
  - As part of this inquiry, we specifically asked about management's assessment of the potential financial and operational impact of the precautionary measures enacted in response to the COVID-19 virus, and plans in place to mitigate the financial effects and continue operations. We identified the following known and/or anticipated impact, and corresponding plans, based on information available at this time. "In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, canceling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities. The primary impact to the City of Clarkston from COVID-19 restrictions was financial in nature. The City of Clarkston generates the majority of its revenue from sales tax. Approximately three-fourths of the current expense revenue is generated from collected sales tax. The closing of many businesses deemed non-essential, not only had an impact in 2020, but potentially for years to come, as small

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businesses are struggling even now to reopen. The Lewis-Clark Valley, which includes the cities of Clarkston, Asotin and Asotin County and the city of Lewiston and Nez Perce County, Idaho (separated only by the Snake River) relies heavily on tourism. This was also severely impacted by restrictions and limits from COVID-19. Because we are a "joint-community" the lack of restrictions in Idaho further exacerbated the issues in Clarkston by causing an outflux of Washington residents traveling to Idaho for retail, especially restaurant services. Many of the residents of Clarkston work in Idaho, and many Idaho residents work or shop in Clarkston. This put an additional strain on our public services such as Police, Fire, Sewer, Sanitation and Ambulance transport. Due to our geographic area and rural nature of our community, we are lacking infrastructure that allowed many entities to work remotely. As a result, the City had to mandate that all employees were essential in order to keep governmental services operational. The length of time these measures will continue to be in place, and the full extent of the financial impact on the city is unknown at this time."

- The government does not prepare interim financial statements

We identified **the following** subsequent events:

- COVID-19 virus and associated impact

### **STEP 3: Evaluation of Transactions and Disclosures:**

We determined the We determined that subsequent event (COVID-19 virus and associated impact) are properly reported and disclosed in Note 9 to the financial statements. [\[FS Summary & Report\]](#)

### **C.4.PR.G - Concluding Financial Audit Procedures**

*Procedure Step:* Litigation, Claims & Assessments

*Prepared By:* TLJ, 3/1/2022

*Reviewed By:* HVB, 3/9/2022

Purpose/Conclusion."

#### **Purpose:**

To determine if reporting and disclosure of any liabilities or contingencies related to litigation, claims or assessments are accurate and complete.

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## **Conclusion:**

We determined reporting and disclosure of any liabilities or contingencies related to litigation, claims or assessments are accurate and complete.

Testing Strategy:

## **BACKGROUND:**

Auditors are required to review for the existence of legal liabilities and contingencies that should be reported or disclosed. Management is the primary source of information about litigation, claims and assessments because these matters are within the direct knowledge and, often, control of management. Since auditors are not ordinarily able to make judgments regarding legal matters, a letter of inquiry to the government's legal counsel is the primary means of corroborating information provided by management.

## **REQUIRED PROCEDURES:**

Auditors are **required** to perform the following risk assessment procedures:

### **Step 1: request information on legal matters**

Inquire and obtain a description and evaluation of all litigation, claims and assessments existing as of fiscal year end or arising since that time from management, including an identification of those matters referred to legal counsel (legal counsel refers to the government's in-house legal counsel and external legal counsel). Management should include all items, including those covered by insurance or where risk is otherwise transferred, such as to a risk pool.

*Auditors should use the Legal Matters Inquiry Letter available in TeamMate to request this information from management. If management does not wish to complete this themselves, they always have the option of having their attorneys respond for them.*

*Contact TAS and your team's Assistant Director of Legal Affairs for any needed assistance in evaluating or corroborating management's evaluation of legal matters. Management or legal counsel's refusal to provide requested information either in writing or verbally would be a limitation on the scope of the audit sufficient to preclude an unmodified opinion.*

### **Step 2: Ensure information provided by management is complete**

Auditors are **required** to perform each of the following steps:

- Review legal expenses for outside attorneys to evaluate management's list of litigation, claims and assessments. Auditors should follow-up on unexpected attorney expenses with inquiry of management and review of invoices or correspondence as necessary. Auditors should **consider** the following procedures to identify outside legal expenses for this review:
  - Management's assertions about consultation with outside attorneys regarding litigation from the legal matters inquiry

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- Search of vendor payments coded to BARS 515.41 (External Legal Services - Advice) and BARS 515.45 (External Legal Services - Claims & Litigation)
- Search of vendor payments for vendor names that appear to be attorneys
- When the auditor is aware that the government has changed legal counsel or that legal counsel has resigned, the auditor should consider making inquiries of management or others about the reasons.
- Consider results of the minutes review and other audit procedures performed during the course of the audit for indications of litigation, claims and assessments. *(Auditors may become aware of actual or potential litigation, claims and assessments through the minutes review, citizen hotlines, newspaper articles, review of contracts and grants, review of expenditures, loan agreements, leases, correspondence from taxing or other governmental agencies, and similar documents or other audit procedures.*

### **Step 3: Evaluate Management's Response to determine if additional follow up is needed**

Evaluate management's response to ensure it is clear, contains all items of information requested and covers matters existing as of the financial statement date and through the effective date of the letter. If information is missing or unclear, request and document clarification either verbally or in writing. If obtained verbally, a summary of the discussion must be documented.

### **Step 4: Determine if attorney letter(s) are needed**

**Unless audit steps 1 through 3 indicate that no actual or potential litigation, claims, or assessments that may give rise to a risk of material misstatement exist, auditors are required to seek direct communication with the entity's external legal counsel. Additionally, in cases when the entity's in-house legal counsel has the responsibility for the entity's litigation, claims, and assessments, seek direct communication with the entity's in house legal counsel as well.**

Auditors must request an attorney letter from any legal counsel involved in the matter as follows:

- Obtain an attorney letter from every attorney that has devoted substantial attention to matters that may give rise to a risk of material misstatement:
  - Request from the entity an attorney's letter from all attorneys who have the primary responsibility for and knowledge about particular litigation, claims, and assessments of which the auditor is concerned.

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- Auditors should use the "Attorney Letter Request" template in the SAOStore for both state agency and local government audits.
- Evaluate the attorney's response to ensure it is clear, contains all items of information requested and covers matters existing as of the financial statement date and through the effective date of the letter. If information is missing or unclear, request and document clarification from the attorney either verbally or in writing. If obtained verbally, a summary of the discussion must be documented.

*The government should be aware of any time we contact their attorney so they won't be surprised by any bills. See AU-C 501.A56-63 for guidance on evaluating any unexpected limitations on the attorney's response.*

### Step 5: Reporting & Disclosure of Liabilities and Contingencies

- Compare reported or disclosed liabilities or contingent liabilities per the financial statements to the information in management's response, any attorney letters and other evidence obtained. See the policy/standards tab for criteria on when liabilities should be reported or disclosed. Auditors should also **consider** follow-up procedures for any variances, depending on the nature and materiality of potential differences.

*Contact the Director of Legal Affairs for any needed assistance in evaluating or corroborating management's evaluation of legal matters. Management or legal counsel's refusal to provide requested information either in writing or verbally would be a limitation on the scope of the audit sufficient to preclude an unmodified opinion.*

Guidance/Criteria:
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

Auditors should be alert for indications of material non-compliance affecting reported figures or existence of potential obligations that may need to be disclosed in order to keep the statements from being misleading.

As described in the template request for an attorney letter, we will accept letters that reference FAS 5, ASC 450-20 or GASB 62 as criteria, as all of these sources are substantially the same.

**SAO Audit Policy [6420](#) - Obtaining Legal Letters**

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## **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**CASH BARS [Note X - Other Disclosures](#)** - includes guidance on required disclosures on material violations of financial-related legal or contractual provisions, as well as subsequent events and major future obligations

Record of Work Done:

### **Step 1: Request information on legal matters**

We noted that management uses in-house legal counsel. We requested a list of legal matters [[Legal Matters Inquiry Letter](#)] from City Clerk/Treasurer Steve Austin. Our request is documented in ([Legal Matters Inquiry Request](#)) and management's response is documented in ([PBC: FW Legal Matters Inquiry Request \(City Attorney Response\)](#) & [PBC: FW Legal Matters Inquiry Request \(Insurance Response\)](#)).

### **Step 2: Other audit procedures to identify legal matters**

We were alert for indications of legal matters during the course of the audit including during our review of minutes, review of FAWF items, and other procedures.

We also compared the list of legal matters and description of the use of outside attorneys to legal expenses. We reviewed the Schedule 1 and noted approximately \$116,212 in FY2020 and \$126,311 in FY2019 for "External legal services - advice". This appears reasonable compared to prior years. We further reviewed the vendor trend at ([Vendor Trend](#)) and didn't note any unusual outside legal expenses.

### **Step 3: Evaluate Management's Response to determine if additional follow up is needed**

We reviewed and evaluated the list and noted **no** matters that required additional clarification or follow-up procedures

### **Step 4: Determine if attorney letter(s) are needed**

We reviewed and evaluated the list and noted **no** matters that required additional clarification or follow-up procedures

### **Step 5: Evaluate accounting treatment of litigation, claims, and assessments**

We noted one insurance claim for the city totaling \$54,615.43 (see:[PBC: FW Legal Matters Inquiry Request \(Insurance Response\)](#)). As this settlement with the city's insurance provider and is not material to the city's financial statements, no note disclosure or further work is necessary.

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## C.4.PR.G - Concluding Financial Audit Procedures

*Procedure Step:* Final Analytical Procedures

*Prepared By:* HVB, 2/19/2022

*Reviewed By:* AMS, 3/16/2022

Purpose/Conclusion.

**Purpose:**

To perform analytical review to evaluate audit conclusions reached and whether financial statements are consistent with the auditor's understanding of the government.

**Conclusion:**

Financial statements are consistent with our understanding of the government.

Testing Strategy.

The **Audit Manager or delegate** is **required** to perform the following procedures in the final review stage of the audit after any necessary adjustments to the financial statements are known.

- At a minimum, (1) complete the final analytical procedures checklist and (2) read through the final draft financial statements and notes to make sure they are consistent with the auditor's understanding and conclusions. Consider further final analytical procedures depending on risk and circumstances, such as a trend analysis or ratio analysis using figures from the final financial statements.
- As part of this review, consider:
  - Misstatements identified by the audit.
  - Adequacy of evidence obtained for significant risks or for any unusual or unexpected balances identified in planning or during fieldwork.
  - Whether there are any previously unidentified unusual or unexpected balances or relationships in the final draft financial statements.
- Perform follow-up procedures as necessary in response to any issues or concerns noted during the final analytical review.

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Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **SAO Audit Policy [6460](#) - Final Analytical Procedures**

Record of Work Done:

We completed the final analytical procedures checklist [[Final Analytical Procedures](#)] and read through the final draft financial statements and notes to make sure they are consistent with the auditor's understanding and conclusions.

As part of these procedures, we considered:

- Misstatements identified by the audit
- Adequacy of evidence obtained for significant risks or for any unusual or unexpected balances identified in planning or during fieldwork
- Whether there were any previously unidentified unusual or unexpected balances or relationships in the final draft financial statements

We identified no unexpected items that need further investigation.

### **AM Comments/Questions:**

- C-4 and Notes - Restrictions and commitments in the notes do not agree to the C-4 for either 2019 or 2020. The variances are material so must be corrected by the City. Also, why are there no reservations of fund balance in the C-4 for 2019?  
[Classification error in 2019 statements and 2019 and 2020 note errors included in aggregation of misstatements and received corrected financial statements. Aggregation of Misstatements \(BARS Cash\)](#)
- Schedule 09 - The OPEB beginning balance for 2019 should be \$0 and the full liability should be reported in the additions column. Looks like the City reported this correctly in the original Schedule 09. This must be corrected because the presentation error is material.  
[The City corrected this presentation. Not aggregated because the correctly presented the OPEB liability as an addition in 2019 and revised the schedule based on our suggested correction. It is now presented as the City originally reported the liability.](#)
- SEFA - the note reference column needs to be updated, currently has reference to note 8 which should be note 3.  
[Corrected but not aggregated since it is a clerical error and is now clearer for a reader of the report.](#)
- SEFA Notes - is it correct that they adopted the 10% de minimis rate? Once they select this option they must use it forever. They also include the note reference for indirects on every grant but I don't think they charged indirects to 97.044 did they?



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Confirmed with Clerk Treasurer, Steve Austin that the District does not have a negotiated rate and no indirect costs were charged to federal program in 2020. The City removed reference to footnote 2 in its revised SEFA.

- AoM - please document why the City chose to leave errors uncorrected in column K.  
Included comments in aggregation of misstatements.

Final statements, notes and schedules at [Final 2019 statements, notes and schedules](#) and [Final 2020 statements, notes and schedules](#).

### C.4.PRG - Concluding Financial Audit Procedures

*Procedure Step:* Aggregation of Misstatements

*Prepared By:* TLJ, 2/22/2022

*Reviewed By:* AMS, 3/16/2022

Purpose/Conclusion:

#### **Purpose:**

To accumulate, evaluate and communicate misstatements and scope limitations in order to determine the impact of identified issues on our audit plan and report.

#### **Conclusion:**

Based on our accumulation, evaluation and communication of identified misstatements, we determined that issues are not material individually or in aggregate and no further work is necessary to reduce audit risk to a reasonably low level.

Testing Strategy:

The following procedures are **required** to accumulate, evaluate and communicate misstatements and scope limitations:

#### **STEP 1: Accumulation of Misstatements and Scope Limitations**

Using the worksheet provided in TeamMate, document all non-trivial (above the floor) misstatements identified during the audit in order to evaluate them individually and in aggregate and communicate to the client. For each issue:

- Relate it to a financial statement or schedule
- Provide a brief description suitable for sharing with the client, including the nature and amount or range of the misstatement or scope limitation.

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- Link or reference the audit documentation supporting the issue

*Follow up work necessary to conclude on the apparent cause of misstatements should be documented as part of the test that identified the misstatement.*

- Conclude on the apparent cause of each issue, specifically evaluating whether each misstatement was indicative of fraud or management override, and whether each scope limitation was management-imposed or due to circumstances beyond the entity's control.

*Auditors should contact their manager if there is reason to believe a misstatement indicates fraud or management override (that is, intentional misstatements made by management), or if any management-imposed scope limitations are identified. If so, auditors should re-evaluate risks identified, our overall COSO evaluation, reliability of evidence obtained and the sufficiency of the audit plan.*

- If the misstatement or scope limitation has a quantifiable effect on an opinion unit, enter the amount in the appropriate aggregation column, following instructions on the spreadsheet.

*Misstatements may have been identified in the current audit or identified in prior audits. Prior year uncorrected misstatements with a current effect should have been identified and documented on the worksheet as part of the Other Engagements & FAWF planning step.*

### **STEP 2: Communication of Identified Misstatements and Scope Limitations**

Discuss all non-trivial known and likely misstatements and scope limitations with management. For each issue, request that management respond as follows:

- **Known Misstatements** – Request correction of misstatements.

*Auditors should request corrections be made online to the annual report in order to generate corrected statements and schedules that teams can then access in LGCS. To make corrections, governments need to contact Team LGS to unlock the annual report (which becomes locked as soon as the audit starts). Contact Kayley Pagio with questions or for assistance.*

- **Likely Misstatements involving projection of a sample** – If material (or close to materiality), request management examine the entire population in order to identify and correct any misstatements. If management reviews the entire population and makes corrections, they should follow the procedures for correcting their annual report and the auditor should re-evaluate the amount of likely misstatement.
- **Likely Misstatements involving differences in accounting estimates** – Request management review the assumptions and methods used in developing their estimate. If management reviews estimates and makes corrections, they should follow procedures for correcting their annual report the auditor should re-evaluate the amount of likely misstatement.

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- **Likely Misstatements involving substantive analytical procedures** – Request management investigate and then review or confirm the results. If necessary, the auditor should expand testing to determine whether a known misstatement exists.

*As described above, auditors should not request corrections for likely misstatements. If likely misstatements, either individually or in aggregate, approach materiality, the auditor must either perform additional work or else request that management review the entire population to identify any known misstatements. If neither of these options are feasible, auditor judgment should be used in evaluating and aggregating the likely misstatements with other known misstatements and considering the effect on the financial statement opinion.*

- **Scope Limitations due to circumstances beyond the government's control** – Confirm with management that our understanding of the scope limitation is correct, and the government is unable to provide the requested records or other information necessary to obtain sufficient, appropriate evidence.
- **Scope Limitations imposed by management** – Request management remove the scope limitation.
- Update the aggregation for corrected misstatements or scope limitations that have been removed.
- For each uncorrected misstatement and remaining scope limitation, understand management's reasons for not correcting or investigating the item or removing the limitation.

*If management refuses to remove a management-imposed scope limitation, auditors should communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient, appropriate evidence.*

### **STEP 3: Reconsideration of Planning**

After compiling initial audit results, it is possible that planning decisions may need to be re-evaluated, especially if significant misstatements or scope limitations were identified or if issues imply substantially different or increased risks than the audit was originally designed to address. Accordingly, the auditor should re-evaluate the following planning decisions:

- Materiality
- Calculation of opinion units (if significant misstatements were identified)
- Significant risks, especially risk of fraud and management override of controls
- Material balances
- Relevant assertions
- Significant accounting systems
- Control risk assessments
- The nature and extent of substantive audit procedures

### **STEP 4: Evaluation of impact of Uncorrected Misstatements and Scope Limitations on the Report**

Evaluate the individual and net aggregate effect of uncorrected misstatements and scope limitations on each opinion unit. When making this evaluation, the auditor should consider:

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- Quantitative factors, such as whether the net effect of issues approaches or exceeds the quantitative materiality threshold. Note that quantitative considerations would not be applicable to certain aspects of the statements (such as presentation and disclosure).
- The possibility of additional undetected misstatements.
- Qualitative factors affecting the fair presentation of the statements. Refer to the Policy/Criteria tab for examples of qualitative factors to consider.
- Management's reasons for not making corrections or not removing management-imposed scope limitations.

*For example, if management's reason for not correcting a misstatement or removing a scope limitation is a concern about user perceptions, it would be a strong indicator that the issue may be qualitatively material.*

### **STEP 5: Communication of Uncorrected Misstatements**

Communicate all uncorrected known and likely misstatements identified during the audit to both management and those charged with governance.

**A list of all uncorrected known and likely misstatements must be provided with the Management Representation Letter and the Exit Conference handout. Auditors may provide the list as an attachment or include it in the Rep Letter template and Exit Conference handouts. The Exit Conference handout must also note any material corrected misstatements.**

Guidance/Criteria.7
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

#### *Aggregation of Misstatements Floor*

The "floor" to the aggregation of misstatements is the threshold below which misstatements and scope limitations are considered trivial and do not need to be accumulated or communicated to management. The floor should be set to an appropriately low level such that un-accumulated misstatements and scope limitations would never reasonably be material - either individually or when aggregated with other misstatements and scope limitations - and considering the possibility of additional undetected misstatements.

The default floor is 0.002 multiplied by the lower of the balance sheet or operating statement materiality, rounded up to the nearest \$1,000. Auditors may use professional judgment to adjust the default floor.

#### *Evaluating Misstatements and Scope Limitations*

Both quantitative and qualitative factors should be considered when evaluating misstatements and scope limitations for effects on our plan (re-

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evaluation of risk assessment) and on our report (determining opinion). Qualitative considerations include:

- Significance relative to reasonable user needs or sensitivities (such as to liabilities, related party transactions, etc).
- Potential effect of the misstatement on trends, especially financial sustainability trends.
- Significance to the presentation of financial position or results of operations, such as a misstatement that changes net position from positive to negative, a net loss into a net gain.
- Potential effect on compliance with laws, bond covenants, contractual agreements or regulatory provisions.
- Nature of the misstatement/scope limitation and management's reasons for not correcting/removing it. For example, misstatements due to fraud, non-compliance or other illegal acts, intentional misstatements management is making in order to hide information from users or influence user perceptions, management-imposed scope limitations, etc.
- Whether the misstatement is part of a possible pattern of management bias or represents a risk of possible additional undetected misstatements.
- Whether the misstatement is known or likely, and the potential range and degree of subjectivity for likely misstatement.
- Whether the misstatement would be obvious to a reasonable user.
- Likelihood that a misstatement that is currently immaterial may have a material effect in future periods.
- Cost of making the correction.

### SAO Audit Policy [6450](#) - Misstatements

Record of Work Done:

#### **STEP 1: Accumulation of Misstatements and Scope Limitations**

During the course of our audit, we gained an understanding of and accumulated all known and likely misstatements above the floor as documented in ([Aggregation of Misstatements \(BARS Cash\)](#)).

Additionally, we identified no scope limitations.

#### **STEP 2: Communication of Identified Misstatements and Scope Limitations**

We discussed and requested correction of all identified misstatements with City Clerk Treasurer Steve Austin on January 3, 2022 and again on March 7, 2022.

We identified no scope limitations to communicate.

#### **STEP 3: Reconsideration of Planning**

We re-considered planning decisions based on initial audit results, specifically considering whether any accumulated results affect our risk

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assessment or indicate previously unrecognized risks, including risks of fraud. We concluded that no changes to planning decisions were needed.

### **STEP 4: Evaluation of Impact of Uncorrected Misstatements and Remaining Scope Limitations on the Report**

We evaluated the quantitative and qualitative impact of uncorrected misstatements individually and in aggregate, considering the possibility of additional undetected misstatements and management's reasons for not making corrections. We determined uncorrected misstatements are immaterial quantitatively and qualitatively immaterial to the financial statements as a whole:

There were no remaining scope limitations.

### **STEP 5: Communication of Uncorrected Misstatements and Remaining Scope Limitations**

We communicated about misstatements as part of our representation letter request and exit conference as documented in those steps.

### **C.4.PR.G - Concluding Financial Audit Procedures**

*Procedure Step:* Prior Findings  
*Prepared By:* HVB, 2/19/2022  
*Reviewed By:* AMS, 3/4/2022

Purpose/Conclusion:

**This step is only applicable if findings were reported in the previous financial audit (including findings reported in the prior Summary Schedule of Prior Audit Findings that were not listed as "fully corrected" or "no longer valid")**

#### **Purpose:**

To complete and evaluate the Summary Schedule of Prior Audit Findings schedule for the audit report.

#### **Conclusion:**

The Summary Schedule of Prior Audit Findings is not applicable; there are no prior financial audit findings for follow-up.

Testing Strategy:

The following procedures are **required** to complete and evaluate the Summary Schedule of Prior Audit Findings for local government financial audits, if applicable:

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- Identify all prior audit findings and link to where follow-up work was documented in TeamMate. Normally, follow-up work will be a planned audit area that can be referenced. However, procedures may be documented in this step if follow-up work was not performed elsewhere or if additional procedures are needed to verify a particular assertion in the description of the status provided by the entity.
- Use the template provided in TeamMate (Audit Administration | Wrap Up) or ORCA to draft the schedule, excluding the corrective action and status sections which are prepared by the entity.
- Use the template provided in TeamMate (Audit Administration | Wrap Up) to request the auditee complete the schedule with the status and description of corrective action **on their own letterhead (preferably in Word)**.
- Review the status and description of corrective action provided by the auditee and compare it with the results of follow-up work. If information is misleading or inaccurate, request the auditee modify the information. If the auditee refuses to correct the inaccurate information, contact your Assistant Director and TAS to determine whether to report this as a finding.

*Definitions for each status are listed in Tracker and the ARS Manual Part 5, Chapter 4. When evaluating the reported status, auditors should **consider**:*

- *To what extent does the previous condition continue to exist?*
  - *What actions were taken by the government and what remedial effect (if any) did they have on the condition?*
  - *Whether the condition or recommendation is repeated in part or whole as part of the current audit. Note: prior audit findings that are not corrected or partially corrected would imply the need to re-issue the finding in the current audit.*
  - *In situations where a prior audit finding is not re-issued, there may still be issues or control deficiencies that are communicated as management letters or exit items. However, the finding-level issues would be considered fully corrected for purposes of the schedule.*
- Upload the completed schedule to the Audit Review Library along with your audit report
  - Update the Audit Status in Tracker for each prior audit finding and management letter with the verified status of the issue and the number of consecutive years it has been repeated at that reporting level.

*If the Entity Reported Status has changed upon audit, auditors should encourage the client to update it by copying the description in the schedule or including an abbreviated or expanded version. However, it is not the auditor's responsibility to ensure it is updated if the client does not take this opportunity.*

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**ARS Manual [Part 5, Chapter 4](#)** - describes requirements for the Summary Schedule of Prior Audit Findings

## City of Clarkston

[Tracker Quick Reference Guide](#) - provides auditor instructions about updating Tracker

Record of Work Done.:

The Summary Schedule of Prior Audit Findings is not applicable; there are no prior financial audit findings for follow-up.

### C.4.PRG - Concluding Financial Audit Procedures

*Procedure Step:* Corrective Action Plans

*Prepared By:* HVB, 3/16/2022

*Reviewed By:* AMS, 3/18/2022

Purpose/Conclusion.:

**This step is ONLY applicable if a SINGLE AUDIT is performed with the financial audit and the auditor is reporting a finding.**

#### **Purpose / Conclusion:**

To ensure the auditee prepares a corrective action plan for each financial or single audit finding in our report.

Testing Strategy.:

For each finding included in the single audit report (including all federal program findings and any financial audit findings as well), the auditee is required by federal law to prepare a corrective action plan to be included in the submission to the Federal Clearinghouse. This corrective action plan is needed in addition to the auditee's response that is provided in the actual finding.

For each financial or single audit finding, auditors are **required** to:

- Enter the current year finding reference number(s) and caption(s) in the attached template, provide the auditee with a copy of the template, and instruct them to fill out the remaining sections. The template is available in the Store in the Single Audit cabinet.
- Check the corrective action plan to ensure it is complete.
  - If any comments are inconsistent or in conflict with the finding, check with your manager and deputy to determine appropriate follow-up procedures to investigate and attempt to resolve the inconsistency or conflict.



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- Auditors have no responsibility for accuracy or feasibility of the corrective action plan as it is not included in our published audit report (only in the submission to the Federal Clearinghouse).
- Upload the completed template to the Audit Review Library along with your audit report

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**[ARS Manual Part 5, Chapter 6](#)** **Corrective Action Plans for Federal and Financial Audit Findings in a Single Audit** - provides instructions regarding Corrective Action Plans

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**[2 CFR 200.511](#)** **Audit Findings Follow-Up** - requires corrective action plans for federal audit findings and for financial audit findings included with the single audit report

"(c) Corrective action plan. At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in 200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons."

Record of Work Done:

See SA Corrective Action Plans step at [\[Corrective Action Plans\]](#).

### **C.4.PRG - Concluding Financial Audit Procedures**

***Procedure Step:*** Changes to FS Audit Plan

***Prepared By:*** HVB, 2/19/2022

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**Reviewed By:**

AMS, 3/4/2022

Purpose/Conclusion:

**Purpose:**

To document changes in the overall audit strategy and plan and determine whether changes caused audit objectives not to be met.

**Conclusion:**

No changes were necessary to the audit plan.

Testing Strategy:

Auditors are **required** to:

- Describe or reference any changes to the original audit plan.

*Changes made during the course of the audit should be differentiated from the original audit plan. These changes may be documented in the Record of Work Done below or as part of the original audit plan (ex: using a different **font color** or listing the changes in a separate section of the original plan). For changes that result in a new engagement letter or addendum in accordance with policy 2140 and 1220, refer to the Engagement Letter step in Teammate.*

- Determine whether changes to the original audit plan support audit objectives.

*Auditors should consider:*

- *Possibility for a significant issue in any areas not completed*
- *Sufficiency of procedures to conclude on the existence and extent of any significant issues in areas where exceptions or new risk information was noted*
- *Any needs for an unplanned area to be tested based on new risk information gained during the course of the audit*

*In making this determination, the lack of budget would not be a valid reason for dropping a planned area. Rather, the team must either conclude that the likelihood of a significant issue is reasonably low, or - if team management determines that more work may be necessary to achieve the audit objectives - the budget should be adjusted in accordance with requirements of Audit Policy 1220 as necessary.*

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*Audit risk for certain areas may be able to be addressed through other engagements or mitigated through further inquiries or reporting the potential risk to the government and recommending internal review or other follow-up.*

*Auditors should consider whether permanent file information needs to be updated to capture any significant new information discovered during the course of the audit.*

If the audit is **terminated** before completion, auditors should follow Audit Policy 1220 and document the work done, the decision and reason for termination, and any communications.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **SAO Audit Policy [6210](#) - Planning Financial Statement Audits**

Record of Work Done:

We continued to consider planning decisions throughout the audit based on conditions encountered, test results, and additional information obtained. Our continuing consideration included re-evaluation of:

- Materiality and tolerable misstatement
- Significant risks, including risk of fraud
- Material balances, relevant assertions and our description of what could go wrong
- Material systems
- Control Risk, Inherent Risk and the Risk of Material Misstatement
- Staffing and independence
- Other elements of our overall audit strategy, such as scope and needed resources

We made **no** substantive changes to the plan.

### **C.4.PR.G - Concluding Financial Audit Procedures**

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**Procedure Step:** FS Summary & Report

**Prepared By:** HVB, 3/16/2022

**Reviewed By:** AMS, 3/18/2022

Purpose/Conclusion:

**As identified in the Consistency of Statements step, auditors are required to add an emphasis of matter paragraph when the new disclosed OPEB liability is significant. See ARS Pt3Ch9 Example FS6b.**

**Purpose / Conclusion:**

To ensure (1) audit evidence is sufficient and appropriate to support the opinion on the financial statements and (2) determine audit results to be included in our reports as detailed in the Record of Work Done.

Testing Strategy:

Auditors are **required** to perform the following procedures to determine whether audit evidence is sufficient and appropriate to reduce audit risk to a reasonably low level and to determine the content of our audit report:

**(1) Evaluation of Evidence Obtained and Audit Risk**

The assessment of the effect of uncorrected known and likely misstatements in the Aggregation of Misstatements step affects the determination of the auditor's opinion. Using that information, you must now determine if you have sufficient, appropriate audit evidence to reduce audit risk (the risk of giving an incorrect opinion) to an appropriately low level.

Required matters to evaluate:

- **Completion of audit work:** Check that all financial statement work is completed.

*Reminder: all work supporting the financial statements must be completed and reviewed prior to the date of our financial statement audit report. This includes any work documented in other audits or sections that support the financial statement opinion (ie: single audit or accountability work referenced in financial statement testing, review of the Schedule of Expenditures of Federal Awards, separate audits done to opine on component units, etc).*

- **Identified risks:** Determine whether risks identified in planning and during the audit were adequately addressed in documented audit procedures.

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- **Audit evidence:** Determine whether procedures and results provided audit evidence of an appropriate quality and in a sufficient amount to opine.

*"Sufficient" refers to the amount of evidence obtained. "Appropriate" refers to the quality of the evidence supporting your opinion. "Quality" refers to applicability of the evidence to the assertions related to the material balances.*

*If evidence is not sufficient or of an appropriate quality to opine on a particular opinion unit, the auditor should perform further tests or procedures to obtain the necessary evidence. If this is not possible, then a qualified opinion or disclaimer of opinion may be appropriate.*

- **Communication with the Governing Body:** Evaluate whether two-way communication with those charged with governance has been adequate for the purpose of the financial statement audit. *If not*, there is a risk that all of the audit evidence required to form an opinion on the financial statements has not been obtained. In such cases, the auditor should take appropriate action to address the effectiveness of the communication prior to opining.

*The objective of this evaluation is to consider whether we have all the information we need from the governing body before issuing the report. While an exit conference (or planned exit conference) may be necessary in some circumstances to obtain or confirm views of the governing body, the auditor may conclude that communication is adequate and the report may be issued prior to the exit conference.*

*In evaluating communication, auditors should consider:*

- *Whether the audit results in modifications of our opinion or findings or there were difficulties or disagreements during the course of the audit that necessitate specific communication with the governing body*
- *Whether the views of the governing body are important to any key audit evidence (such as managements plans in light of potential going concern issues)*
- *The apparent awareness and understanding of the governing body to any critical issues or business risks identified by the audit*
- *The apparent openness of the governing body in their communications with auditors and their willingness and ability to meet with auditors*
- *The apparent level of communication by management with the governing body regarding the audit*
- *Whether any members of the governing body have expressed interest or concern about any audit areas or issues*

### **(2) Financial Statement Audit Reports**

Determine the audit results to be included in our audit reports. If any conclusions require additional explanation or description that is not documented elsewhere in the audit, such explanation or description should be included in this section.

- **Opinion on Fair Presentation of Statements (F report):** Determine the opinion for each opinion unit based on the auditor's evaluation of uncorrected misstatements and the sufficiency and appropriateness of audit evidence obtained.

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- **Opinion on Fair Presentation of Other Information (F report):** If the report includes other information for which we give an opinion (such as the SEFA or budgetary comparison schedules for which we give an opinion on fair presentation in relation to the financial statements taken as a whole), determine our opinion for each schedule based on the auditor's evaluation of uncorrected misstatements and the sufficiency and appropriateness of audit evidence obtained.
- **Emphasis of Matter and Other Matter Paragraphs (F report):** In certain circumstances, our audit report is required to include emphasis and other matter paragraphs. In addition, the auditor always has the option to emphasize important matters regarding the financial statements in the auditor's report.

*A comprehensive list of circumstances requiring an emphasis of matter paragraph is included in the ARS manual. The most common situations are as follows:*

- *Required supplementary information (ie: MD&A) has been omitted, contains material departures from standards or when the auditor has not been able to adequately determine whether information conforms to standards.*
- *Auditor's opinion is based in part on the report of another auditor*
- *There is substantial doubt about the entity's ability to continue as a going concern for one year beyond the date of the financial statements.*
- *There has been a material change in accounting principles from the prior year's statements. This may be the result of the entity implementing a new accounting standard (in which case, standard language is available in ORCA) or it may be the result of the entity changing methods or application of principles (in which case, special language would need to be drafted).*
- *Partial or incomplete prior period presentation when reporting on comparative financial statements.*

*Examples of matters the auditor may wish to emphasize include:*

- *Significant concerns or uncertainties about the fiscal sustainability of the government or other matters that may have a significant impact on the financial condition or operations of the government beyond one year from the financial statement date.*
- *Unusual or catastrophic events that will likely have a significant ongoing or future impact on the entity's financial condition or operations.*
- *Significant uncertainties surrounding projections or estimations in the financial statements.*
- *Unusually important subsequent events or related party transactions.*
- *Accounting matters, other than those involving a change in accounting principles, affecting the comparability of the financial statements with those of preceding years.*
- *Any other matter that the auditors consider significant for communication to users and oversight bodies in the auditor's report*

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- **Controls over Financial Reporting (I report):** Check internal control documentation in the permanent file folder for any significant deficiencies or material weaknesses identified. Also consider whether exceptions or misstatements identified by the audit – whether individually or in combination - indicate a significant deficiency or material weakness.

*For example, if the audit identifies a material misstatement, it would indicate a potential material weakness in controls over financial reporting (since the controls did not prevent or detect and correct the material misstatement).*

*Also, if the audit identifies a number of control deficiencies that were not individually considered a material weakness, auditors should evaluate the potential effect of these deficiencies together to determine whether they may represent a significant deficiency or material weakness in combination*

- **Compliance and other matters (I report):** Based on the work performed in the audits of the financial statements, federal programs, and accountability, determine if fraud or noncompliance with laws, regulations, contracts or grant agreements occurred or is likely to have occurred. If so, determine if it materially (either quantitatively or qualitatively) affects the financial statement amounts or other financial data significant to the audit. (For audits of periods ended before June 30, 2020, abuse must also be evaluated). If the effect is more than inconsequential, refer to the ARS Manual Part 3, Chapters 5 and 11 for guidance on how to report instances of non-compliance.

### **(3) Report Preparation & Distribution:**

- Route Findings and Management Letters to the appropriate personnel. **Reminder: the level of reporting should be approved and the draft ML/Finding should be in-process prior to report creation.**
- Prepare the audit report using ORCA and the ARS manual.
  - Review the draft report using the report review checklist in the [ARS part 3, chapter 2](#) and attach the completed checklist to this step.
  - Compare the draft report to the prior year report for consistency. If differences are noted, they should be fully investigated to ensure the current report is correct.
  - Compare the draft report to the ARS manual templates and instructions to ensure the report has the appropriate information and details.
- All modifications to the standard, unmodified opinion must be reviewed by TAS/QA. Contact TAS/QA for assistance with any special reporting situations or questions.
- Review report distribution in ARTS to ensure standard distribution and distribution to any additional parties that may need to be informed of the audit.

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Guidance/Criteria:

## **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

Standard audit documentation may need to be modified to fit the situation for modified opinions, especially for adverse and disclaimer situations:

Documentation should support:

- Description of the facts and circumstances leading to the modified opinion.
  - Information or evidence necessary to support the contents of our report, including any findings or emphasis of matter or other matter paragraphs.
  - Conclusions regarding the risk of fraud, noncompliance and abuse and the auditor's evaluation of whether further procedures are necessary for these purposes.
  - Communications with the entity, including the governing body, to ensure we understand their views on the situation.
  - Appropriate representations that reflect the situation. The purpose of the representation letter in a disclaimer or adverse opinion situation is to confirm there isn't anything important about their situation that they know of but haven't told us about. In absence of this confirmation, our audit would need to seriously consider additional procedures to respond to increased uncertainty for fraud, noncompliance or other issues that may be intentionally concealed. This should include representations for:
    - Acknowledgment of management's responsibilities.
    - Confirmation they are not aware of any fraud or noncompliance beyond anything they may have shared with us.
    - Confirmations of any specific facts or assertions about the situation that are the reason for our modified opinion. For example, that management is unable to provide certain documentation due to a certain reason.
- In some situations, documented communication with the entity may take the form of memos, meeting agendas and/or a modified representation letter rather than engagement letters or other standard documents.
- Any steps or workpapers that didn't accomplish any substantial work should be deleted.
- Documentation of substantial work started or completed should be left in the workpapers. To resolve any steps that were started but not completed, auditors should add a quick note or appropriate conclusion to indicate where and why work was stopped. For example, we may conclude that work was stopped at request of the client, or that we were unable to obtain sufficient appropriate evidence or unable to complete procedures we felt were necessary.
- The concluding folder with the following steps will always be needed:
  - Response to finding (presumed necessary)



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- FS Summary & Report
- FS Letter of Representation
- FS Exit Conference
- FS Quality Assurance Certification

When a modified opinion is likely, auditors should be in communication with their Deputy in accordance with Audit Policy 2310. Modified opinion situations – in particular disclaimer and adverse opinions - also require greater effort to ensure adequate two-way communication with the governing body, as required by professional standards. This normally takes the form of a special meeting to discuss the situation. In accordance with Audit Policy 6510, auditors should contact Team Audit Support for review of the modified opinion. Team Audit Support and the team's Assistant Director are also available to consult on audit, communication and reporting strategies and evaluations.

**Refer to ARS manual for details regarding audit report contents and preparation.**

**SAO Audit Policy [6510](#) - Reporting on Financial Statement Audits**

**SAO Audit Policy [2310](#) – Reporting Identified Audit Issues**

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**AU-C [260](#) The Auditor's Communication with those Charged with Governance** - describes the auditor's responsibilities related to communication, par .20 covers the adequacy of the communication process

**AU-C [330](#) Performing Audit Procedures in Response to Assess Risks and Evaluating the Audit Evidence Obtained** - par .27-.29 and .A74-.A76 describe the auditor's responsibilities related to sufficient appropriate audit evidence

Record of Work Done:
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### **(1) Evaluation of Evidence Obtained and Audit Risk**

We determined that sufficient, appropriate audit evidence was obtained and documented in order to support our audit report and reduce audit risk to an appropriately low level. In making this determination, we:

- **Completion of work:** checked that all work necessary to support our opinion was completed.
- **Identified risks:** checked that risks identified in planning were adequately addressed by documented audit procedures.

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- **Audit evidence:** considered quality and amount of audit evidence, in relation to identified risks.
- **Communication with governing body:** considered sufficiency and effectiveness of our communication with management and those charged with governance.

### **(2) Financial Statement Audit Report**

We analyzed accumulated misstatements in the Aggregation of Misstatements step and accumulated control weaknesses in the attached LOR Summary. Based on our audit and consideration of results at both individual and aggregate levels, we made the following conclusions that will be reflected in our audit report:

#### Opinion on Fair Presentation of Statements (F report):

Our opinion on the fair presentation of financial statements will be: **unmodified for all opinion units.**

#### Opinion on Fair Presentation of Supplementary Information (F report):

Our opinion on the fair presentation, in relation to the financial statements as a whole, of [Schedule of Liabilities and Schedule of Expenditures of Federal Awards] will be: **unmodified.**

#### Explanatory and Emphasis Paragraphs (F report):

We determined that **no explanatory paragraphs were necessary.**

In addition, we decided that **matters needed emphasis** in our audit report for:

- COVID-19 Virus and associated impact
- OPEB implementation

#### Controls over Financial Reporting (I report):

We evaluated all identified deficiencies individually and in combination and noted **no significant deficiencies or material weaknesses in controls** over financial reporting. We noted **deficiencies reported as a management letter** [Financial statement preparation] that will be referenced in our financial report.

#### Compliance and Other Matters (I report):

We noted **no material instances of noncompliance, fraud or abuse** that impact the financial statements as a finding and **no compliance matters reported as management letters** that will be referenced in our financial report.

### **(3) Report Preparation & Distribution:**

In preparing the report, we:

- Routed Findings and Management Letters to the appropriate personnel, as applicable.

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- Prepared the audit report using ORCA and the ARS manual:
  - Reviewed the draft report using the report review checklist at [[Report Review Checklist](#)].
  - Compared the draft report to the prior year report for consistency. Differences noted, if any, were fully investigated to ensure the current report is correct.
  - Compared the draft report to the ARS manual templates and instructions to ensure the report has the appropriate information and details.
- Reviewed report distribution in ARTS to ensure standard distribution and distribution to any additional parties that may need to be informed of the audit.

Report preparation, technical report review, issuance, distribution, report date and the final official version of the report are documented in ORCA and the ARTS database.

Report distribution will not be limited. The report will be distributed publicly by publishing on our website. Links to the published report will be sent to the audit liaison (on behalf of the government's management and governing body), representatives of oversight bodies and other officials as appropriate, and additionally to any parties with applicable subscriptions.

### C.4.PR.G - Concluding Financial Audit Procedures

*Procedure Step:* GAAP Opinion Summary

*Prepared By:* HVB, 3/16/2022

*Reviewed By:* AMS, 3/18/2022

Purpose/Conclusion.*
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#### **Purpose:**

To determine (1) if audit evidence is sufficient and appropriate to support our modified GAAP opinion on the financial statements and (2) audit results to be included in our GAAP opinion.

#### **Conclusion:**

We determined that our audit work provides a sufficient basis on which to render a GAAP opinion. Based on our audit, we determined that **no** variances from the ARS manual example adverse GAAP opinion are needed.

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### Testing Strategy:

Auditors are **required** to perform the following procedures to address our GAAP opinion:

#### **Evaluation of Evidence Obtained and Audit Risk**

Since financial statements present individual funds, these funds would be considered separate opinion units (major funds) for purposes of our GAAP opinion.

Considering assessed risk, testing procedures, and our anticipated modified opinion, determine if the audit has resulted in sufficient, appropriate audit evidence to reduce audit risk (the risk of giving an incorrect opinion) to an appropriately low level.

#### **Departures from GAAP**

Check that the notes adequately describe accounting policies and how the special purpose framework differs from GAAP. Summarize all identified departures from GAAP, including:

- Accounting policies that are acceptable under the special purpose framework, but would not be under GAAP. We would expect all such departures to be described in Note 1.
- Misstatements (which would represent a departure from both the special purpose framework and GAAP)

*We would expect that departures from GAAP would match the example note in the BARS Manual, which describes cash basis reporting. Contact Team Audit Support if you identify additional accounting policies that represent departures from GAAP that are not adequately described in the Notes.*

*We would presume that these differences are material.*

#### **Determine GAAP opinion**

Based on the identified departures from GAAP, if any, document the opinions to be given for each opinion unit/fund. An opinion for a fund may be unmodified, qualified, or adverse, or a disclaimer of opinion could be given, if necessary. If different types of opinions are involved, the documentation should separately state the opinion for each opinion unit.

*Departures from GAAP may include valuation, presentation or disclosure matters. AU-C 800.15 does not require quantification of departures from GAAP in relation to special purpose financial statements. Rather, identified departures would be presumed material unless the auditor has documented an analysis of the quantitative and qualitative effect to support the conclusion that the departure is trivial. Contact Team Audit Support for any assistance with this evaluation.*

### Guidance/Criteria:

#### **ADDITIONAL BACKGROUND**

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Auditors should consider the following background information and resources when performing work on this area.

In situations when financial statements are prepared on a basis other than GAAP and are intended for general distribution, AU-C 800.21 requires the auditor to give a "dual" opinion on both fair presentation of the financial statements in accordance with the regulatory method and fair presentation in accordance with GAAP.

This step is to address our GAAP opinion, whereas the "FS Summary & Report" step is to address our regulatory basis opinion and the rest of our audit report. Contact TAS with any reporting questions.

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

### **AU-C [800](#) Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks**

Record of Work Done.
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### **Evaluation of Evidence and Audit Risk**

We evaluated our risk assessment, testing and conclusions - including our aggregation of misstatements - as a basis for our modified GAAP opinion, considering identified departures from GAAP as described below.

We determined that our audit work provides a sufficient basis on which to render a modified GAAP opinion. No further procedures are considered necessary.

### **Departures from GAAP**

We reviewed the summary of significant accounting policies in the notes to determine whether description of accounting policies and how the special purpose framework differs from GAAP was adequately described. Based on our testing and review of presentation & disclosure, we confirmed the following non-trivial departures from GAAP:

- Statements are presented on a cash basis
- All funds are presented rather than a focus on major funds
- Ending balances are not presented using classifications defined by GAAP

### **Determine Opinion based on GAAP**

Based on our audit, we considered materiality by opinion unit and made the following conclusions that will be reflected in our audit report:

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Our opinion on the fair presentation of financial statements in accordance with GAAP will be **adverse for all opinion units**. Our opinion will not address the lack of government-wide statements and RSI since these are not required by the BARS Manual.

We determined that **no variances from the ARS manual example are needed**.

### C.4.PRG - Concluding Financial Audit Procedures

*Procedure Step:* Review Finding Response

*Prepared By:* HVB, 3/16/2022

*Reviewed By:* AMS, 3/18/2022

Purpose/Conclusion.\*

**This step is only applicable if findings are reported, otherwise it can be deleted.**

#### **Purpose:**

To request and evaluate the views of responsible officials on draft findings to ensure adequate communication has occurred and our report is accurate, complete and objective.

#### **Conclusion:**

We requested and evaluated the views of responsible officials on draft findings to ensure adequate communication has occurred and our report is accurate, complete and objective.

Testing Strategy.\*

*Auditors must either (A) obtain and review the finding response on or before the report date or (B) confirm with management on or before the report date that the response will not contain any new information or disagreement that might cause us to re-evaluate our finding, in which case the response may be obtained and reviewed any time before report issuance.*

Audit issues should be discussed in detail with the audit liaison and other responsible parties as part of concluding on audit tests. These discussions should be completed prior to providing a draft finding and requesting a response. To request and evaluate the views of responsible officials on draft findings, auditors are **required** to perform the following procedures:

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- Use the "Request for Finding Response" template in TM to obtain a response to draft findings.

*Normally, coordination of a response will be handled by the audit liaison. But in some circumstances it may be appropriate for the auditor to also directly communicate with other officials or the governing body or request meetings with key staff for this purpose.*

- Obtain and evaluate the Auditee's Response. If any comments are inconsistent or in conflict with the finding, check with the manager and assistant director to determine appropriate follow-up procedures to investigate and attempt to resolve the inconsistency or conflict.

*The response should normally be received and reviewed on or before report date. However, the response may be received after the report date (but before report issuance) so long as auditors document their confirmation that management and the governing body has reviewed the finding and their response will not include any new facts or perspectives that might cause us to re-evaluate our finding.*

*If a response was not provided or was edited by the auditor, auditors should document the circumstances and rationale. Appropriate follow-up may include:*

- *Discussions or meetings with the government to ensure understanding of issue or to ensure adequate two-way communication with responsible officials and those charged with governance*
- *Audit procedures or report review to evaluate the validity of comments*
- *Modifications to the finding or report*
- *Audit procedures to develop the Auditor's Response*
- *Discussion at the exit conference regarding disagreements with management*

- Develop an appropriate Auditor's Response

Guidance/Criteria.7

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**[ARS Manual Part 5, Chapter 2](#) Structure and Development of Findings** - provides guidance on development of findings, including the auditee's response and auditor's response sections

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**[Yellow Book \(GAGAS\) 6.57-6.62](#) Obtaining and Reporting the Views of Responsible Officials** - describes the auditor's responsibility to obtain the views of responsible officials and evaluate responses

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Record of Work Done.:

See SA Review Finding Response step at [\[Review Finding Response\]](#).

### C.4.PRG - Concluding Financial Audit Procedures

**Procedure Step:** FS Letter of Representation

**Prepared By:** HVB, 3/17/2022

**Reviewed By:** AMS, 3/18/2022

Purpose/Conclusion.:

**Purpose:**

To confirm the continuing applicability of management's explicit or implicit representations and reduce the possibility of misunderstanding.

**Conclusion:**

Entity management provided a signed letter with all appropriate representations.

Testing Strategy.:

*Auditors must either (A) obtain and review the representation letter on the report date or (B) confirm with management on or before the report date that the representation letter will be signed without exception, in which case the letter may be obtained and reviewed any time before report issuance.*

To confirm management's representations, auditors are **required** to perform the following procedures:

**STEP 1: Identify necessary representations**

Using the TeamMate template letter located in the SAOStore (Audit Administration | Audit Wrap-Up folder), determine the applicable written



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representations needed from management for all periods covered by our audit report. The template should be modified as needed to reflect the audit scope and situation.

*The "general representations" section should be included in all situations; other sections should be deleted if unneeded. For example, auditors should delete the "additional representations related to the financial statements" section if a financial statement audit is not done or when issuing an opinion on single audit work at a later date than the financial statement opinion.*

Determine whether any additional representations need to be obtained beyond the standard representations included in the template and modify the template as needed. Contact TAS if you need assistance regarding any additional representations that may be needed.

*The following are common examples of additional representations (see also AU-C 580, Exhibit B):*

- *The government has used the work of a specialist, such as for determining environmental remediation, pension, OPEB, self-insurance or landfill obligations.*
- *The government has changed accounting principles.*
- *Supplementary information is being presented (such as ACFR or grant schedules).*
- *Financial circumstances are strained and we are reporting either an emphasis of a matter or going concern paragraph.*

### **STEP 2: Request letter of representation**

Auditors should request the letter of representation by letter or email using the template located in the SAOStore. Since representations include reference to uncorrected misstatements (if any), the auditor's final list of uncorrected misstatements should either be included in the letter or attached.

If an updated letter is needed, auditors may either request a new letter of representation with the correct date or may request an updating letter which refers to the original letter of representation.

### **STEP 3: Review representations**

Obtain and review the representation letter to ensure:

- All representations were properly made and are consistent with expectations
- It is dated as of our report date
- It is signed by appropriate members of current management.

*The representation letter must be dated as of the report date. However, the letter may be received after the report date so long as auditors document their confirmation that management has reviewed and will sign the representation letter without exception and are able to obtain and review it before issuing the report.*

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*The letter should be signed by members of management with overall responsibility of financial and operating matters who are responsible and knowledgeable about, directly or through others in the entity, the matters covered in the representations. Generally, the letter is signed by the chief executive officer (e.g. city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer).*

*When such persons were not present during all periods referred to in the letter, they may claim they are not in a position to provide some or all of the representations. This fact, however, does not diminish management's responsibilities and would not be a reason for the auditor to accept this risk or responsibility.*

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **SAO Audit Policy [3420](#) - Management Representation Letters**

Record of Work Done:

### **STEP 1:**

We selected the appropriate representation letter template [[Rep Letter - BARS Cash](#)] from the Store and considered whether any additional representations were needed beyond the standard ones included in the template. We determined that **the following** additional representations were needed.

### **For OPEB - LEOFF 1:**

We considered the qualifications of the WA Office of the State Actuary (OSA) to create an electronic tool for determining the City's liability for LEOFF 1 other post-employment benefits (OPEB) under the GASB 75 alternative method and agree with the results of the electronic tool, which are reflected in financial statement amounts and disclosures. In using the tool, we input correct and complete information into the electronic spreadsheet, and did not enter any inaccurate information with respect to the amounts or assumptions, or modify cells in the OSA spreadsheet, in an attempt to change the outcome of the calculation. Further, we are not aware of any other external matters that would have had an impact on the appropriateness of using the alternative method or assumptions used by the OSA's tool. We confirm that we are a LEOFF 1 employer and we had fewer than 100 plan members (active and retired) as of the beginning of the reporting period and are, therefore, eligible to use the tool.

### **STEP 2:**

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We requested management representations as detailed in [Rep Letter Request, Management Representation Letter Request]. Along with the request, a final list of uncorrected misstatements was included in the representation template.

### **STEP 3:**

We confirmed with Steve Austin, Clerk Treasurer on March 17, 2022 that management has reviewed the representation letter and will sign it without exception as of the report date (March 18, 2022).

We obtained the representation letter [Signed Management Representation Letter] and reviewed it to check that:

- All representations were properly made and consistent with expectations;
- It was dated the same as our report date; and
- It was signed by appropriate members of management.

### **C.4.PR.G - Concluding Financial Audit Procedures**

*Procedure Step:* FS Exit Conference

*Prepared By:* TLJ, 3/22/2022

*Reviewed By:* AMS, 3/22/2022

Purpose/Conclusion:

#### **Purpose / Conclusion:**

To communicate the results of our audit with management and those charged with governance.

Testing Strategy:

*If no exit conference was held or if the report was issued prior to the date of the exit conference, explain the situation in this step (and in the Exit Conference Explanation field in the Custom tab of the Profile) and document how the auditor ensured that adequate communication with management and elected officials occurred.*

#### **Pre-Exit Meetings:**

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If pre-exit or departmental exit conferences are held, the official handout (if any) should be attached and the meeting documented in this step. Attachments for pre-exit or departmental exit meetings should be clearly labeled to distinguish them from the official exit conference.

### **BEFORE the Exit Conference:**

- Communicate with management as to who will attend the exit conference and arrange for a convenient time and location for the exit conference.
- Invite elected officials to the exit conference (approved invitation letter templates are available in the SAOStore).
- Prepare the exit conference handout using the template available in the SAOStore and the [Exit Conference PowerPoint](#) using the linked template (also available in the Auditor Reference Guide).

*Note: management letter, finding and status of prior audit finding templates are also available in the SAOStore, if needed.*

- Prepare the draft audit report(s) for presentation at the exit conference.
- Prepare a separate handout for exit items and share these items with management prior to the exit conference along with any draft management letter or finding issues.

*Exit items are referenced, but not included, in the exit conference document. Auditors should bring the handout to the exit and be prepared to discuss exit items if requested.*

***NOTE:** Communication of IT security matters are highly sensitive, Washington OCIO [category 3](#) information. Please mark IT Security exceptions in TeamMate with "**Limited Distribution – Confidential SAO Information, May Be Protected Under RCW 42.56.420**". IT security details should never be sent via Email.*

***All** IT Related recommendations must be reviewed by a member of Team ITA management. Please send requests for review to [SAOITAudit@sao.wa.gov](mailto:SAOITAudit@sao.wa.gov). In your email request, please identify the TeamMate Audit Project Code and recommendation reference number only.*

*IT related management letters and findings without security issues will be reviewed by the IT Audit Program Manager through the Audit Review Library process. Security results documents will be reviewed by the IT Audit Program Manager using the [TIA Support folder](#) for your team.*

*There is no charge to the audit for the required review of findings, management letter, security results and exit materials. Our multi-level review process can take up-to 2-4 business days depending on workload and availability. Please make sure to submit the IT related recommendations with that timeline in mind to ensure that we can provide governments with informative and useful recommendations on these technical issues.*

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- For financial statement audits, print a schedule of uncorrected misstatements from the Aggregation of Misstatements spreadsheet to attach to the exit handout. Also attach a copy of the Management Representation Letter.
- Plan the presentation of audit results by considering the following:
- Who will attend from SAO?
- Who will present each section?
- Detail of audit scope?

### **DURING** the Exit Conference:

- Present Exit conference handout. The conference must include discussion of significant audit results, such as:
- Contents of the draft report.
- All non-trivial uncorrected misstatements. Auditors should attach a schedule of uncorrected misstatements by following the printing instructions on the Aggregation of Misstatements spreadsheet.
- Any material corrected misstatements, if not already reported as part of a significant deficiency or material weakness finding.
- Representations requested from management. A copy of the Management Representation Letter should be attached.
- Significant disagreements with management and their resolution.
- Significant difficulties encountered during the audit.
- Our views on significant questions that management consulted with other CPAs about.
- Any other significant issue related to the governing body's financial reporting responsibilities.

### **AFTER** the Exit Conference:

- Document the conference attendees (SAO and entity) in the Record of Work Done.
- Send copies of the exit document to any elected officials who were not able to attend the conference (do not include the handout of exit items).
- Include the official exit document and handout of exit items in the AS2 Team Reports folder.

*Note: When attaching the exit conference PowerPoint presentation, consider attaching as a PDF file to minimize file size.*

- Ensure that exceptions documented in TeamMate match the official handout of exit items, management letter and findings, as applicable.

*The final exit conference document, handout of exit items, management letters and findings should be attached at AS2: Team Reports.*

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Guidance/Criteria:

## **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [2130](#) - Inviting Officials to Entrance and Exit Conferences**

**SAO Audit Policy [2220](#) - Conducting Exit Conferences**

**SAO Audit Policy [2310](#) - Reporting Identified Issues**

Record of Work Done:

## **Invitations:**

We invited the following City officials and management to the exit conference via email [[City of Clarkston Exit Conference Invitation](#)]:

- Monika Lawrence, Mayor
- John Murray, Councilmember Position 1
- Robin Albers, Councilmember Position 2
- Pat Holman, Councilmember Position 3
- Russ Evans, Councilmember Position 4
- Skate Pierce, Councilmember Position 5
- David Vinton, Councilmember Position 6
- Steve Ebert, Councilmember Position 7
- Steve Austin, Clerk Treasurer

## **Exit Conference:**

The exit conference handout is documented at [[Exit Conference](#) and [Exit Conference Powerpoint](#)]. The following people attended the official exit conference on March 22, 2022 via Microsoft Teams conference call, which was held in accordance with Audit Policy 2220:

- Monika Lawrence, Mayor
- Steve Austin, Clerk Treasurer
- Russ Evans, City Council Member
- Alisha Shaw, Program Manager
- Heide Brillantes, Audit Supervisor
- Travis Jones, Audit Lead

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In addition to the topics shown on the exit conference handout, the following items were also discussed:

- None

We also sent copies of the exit conference handout along with a cover letter ([\[Exit Conference Information\]](#)), to the following people:

- John Murray, Councilmember Position 1
- Robin Albers, Councilmember Position 2
- Pat Holman, Councilmember Position 3
- Russ Evans, Councilmember Position 4
- Skate Pierce, Councilmember Position 5
- David Vinton, Councilmember Position 6
- Steve Ebert, Councilmember Position 7

### C.4.PRG - Concluding Financial Audit Procedures

*Procedure Step:* FS Quality Control Assurance Certification

*Prepared By:* TLJ, 3/22/2022

*Reviewed By:* AMS, 3/22/2022

Purpose/Conclusion.:

**Purpose / Conclusion:**

To review and certify adherence to applicable audit standards and policy with regard to the financial statement audit.

Testing Strategy.:

This step should be signed-off by the Auditor-in-Charge, the Assistant Audit Manager, and the Audit Manager. The Quality Control Assurance Certification should be signed-off **before** the Financial Statement report is issued.

***NOTE: if a ACFR Letter is issued, the QAC should be signed before the ACFR Letter is issued.***

**If a requirement does not apply, it should be noted on the certification. If a requirement was not met an explanation needs to be documented and approved by the Audit Manager.** No other modifications to the form should be made. It is not necessary to reference

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applicable sections of the certification to the audit documentation.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **SAO Audit Policy [3430](#) – Quality Control Assurance Certification**

Record of Work Done:

### **Quality Control Assurance Certification**

*The certification should be signed-off **before** the Financial Statement report is issued.*

### **Auditor in Charge Statements**

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).
2. I informed assistants, if any, of responsibilities and objectives of the procedures they were planned to perform and all relevant information related to those responsibilities (Audit Policy 3160).
3. I monitored the audit budget compared to actual audit hours and requested approval in advance from the supervisor and Audit Manager if additional audit hours were needed (Audit Policy 3160).
4. I promptly informed my supervisor of potential audit issues encountered (Audit Policy 3160).
5. I informed my supervisor of modifications to the audit plan (Audit Policy 3160).
6. Work performed was documented in accordance with Audit Policy 3310.
7. I reviewed audit documentation prepared by assistants to ensure work was adequately performed and properly documented (Audit Policy 3160).
8. I promptly resolved any coaching notes (Audit Policy 3160).
9. Sufficient and appropriate audit evidence was obtained and evaluated to ensure audit objectives were achieved (Audit Policy 3210).
10. In planning the financial statement audit, all planning steps in TeamMate were completed and documented (Audit Policy 6210).
11. All concluding audit steps in TeamMate were completed and documented (Audit Policy series 6400).
12. All government elected officials or the audit committee members were invited to official entrance and exit conferences in accordance with Audit Policy 2130.
13. Adequate communication with management and the governing body occurred prior to issuance of the report, including all information required to be discussed by Audit Policies 2120, 2210 and 2220.

### **Assistant Audit Manager (Supervisor) Statements**



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1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).
2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).
3. I ensured that all coaching notes were resolved (Audit Policy 3160).
4. I informed the Audit Manager of significant problems or audit issues (Audit Policy 3160).
5. I agree with the certification statements made by the auditor-in-charge.

### **Audit Manager Statements**

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).
2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).
3. I requested approval for audit budget changes from the Director or delegate (Audit Policy 1220). Also, I communicated audit budget changes to Team Financial Services.
4. In my opinion, the staff assigned to conduct each engagement collectively possess adequate professional competence for the tasks required (Audit Policy 3140).
5. I immediately informed the Director or delegate if the report was anticipated to be issued 30 days or more after the timeliness goals established in Audit Policy 2320.
6. The protocol for findings and management letters as outlined in Audit Policy 2310 was followed.

### **D.1.PRG - Assistance to Firefighters Grant - 97.044**

***Procedure Step:*** Overview and Compliance Requirements

***Prepared By:*** AR, 11/15/2021

***Reviewed By:*** AMS, 3/2/2022

Purpose/Conclusion:
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### **Purpose/Conclusion:**

To determine the compliance requirements that have a direct and material effect for this major program. They are:

- A. Activities Allowed or Unallowed

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- B. Allowable Costs/Cost Principles
- C. Cash Management
- F. Equipment
- G. Matching
- G. Level of Effort
- H. Period of Performance
- I. Procurement / Suspension & Debarment
- L. Reporting

Testing Strategy:

*See the policy/standards tab for detailed instructions on determining the compliance requirements that have a direct and material effect for a major program and detailed information about the Compliance Supplement*

### COMPLIANCE SUPPLEMENT

**The auditor must use the Office of Management and Budget (OMB) 2 CFR 200, Appendix XI Compliance Supplement that is applicable for the period under audit.** For fiscal year 2020 audits, the auditor must use the [2020 OMB Compliance Supplement](#), which is effective for audits of fiscal years beginning after 6/30/19. *Note: Per Appendix VII, Other Audit Advisories, 1. Novel Coronavirus (COVID-19), of the 2020 Compliance Supplement, OMB is working with federal agencies to identify the needs for additional audit guidance for new COVID-19 related programs and existing programs with compliance requirement changes and plans to publish an **Addendum to this Supplement**. **The Addendum was published on 12/22/2020 and has been added to the federal grant resources page or can be found [here](#). Auditors must use the Addendum, as applicable, with the Compliance Supplement.***

***CAUTION: There were many existing programs that received COVID-19 Federal assistance, including CARES Act funding. Auditors should be alert that those programs may have received waivers or exemptions to certain compliance requirements.***

### Important information about the 2020 Compliance Supplement:

#### Pick-Six Initiative

The 2020 Compliance Supplement continues the mandate adopted in the 2019 Compliance Supplement requiring that each federal agency limit the number of compliance requirements subject to the audit to six (there are 12 under Uniform Guidance), with the exception of the Research and Development cluster, which has been permitted to identify seven compliance requirements as subject to audit.

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*Note the requirements relating to A. Activities Allowed and Unallowable and B. Allowable Costs and Cost Principles are treated as one requirement, as are N. Special Tests and Provisions (regardless of the number of special tests listed). Also, this initiative does not apply to programs not included in Part 4 of the Compliance Supplement.*

With the pick-six initiative, even if a compliance requirement is applicable to an auditee and material to the program, if the Compliance Supplement identifies the requirement as "N" in the matrix (Part 2), it is not subject to audit. **Auditors are not expected to test requirements identified with an "N".**

### **Part 2 – Matrix of Compliance Requirements**

Those requirements that were changed from a "Y" to a "N" or from a "N" to a "Y" since the last Supplement are shown in bold (and highlighted in yellow) in the A-N matrix columns.

### **Part 3 – Compliance Requirements:**

Note that OMB considers the transition to the Uniform Guidance 2 CFR part 200 completed, as it is applicable to all federal awards made on or after December 26, 2014, so they removed the "Transition to 2 CFR part 200" section and the Part 3.1 – federal awards made prior to December 26, 2014, from the 2020 Compliance Supplement. **On the rare occasions that auditors are reviewing activities for federal awards made prior to December 26, 2014, the 2019 Compliance Supplement should be used for guidance.** Contact the Single Audit Specialist with any questions.

### **Part 8 - Appendix VII Other Audit Advisories, NEW SECTION added - I. Novel Coronavirus contains information specific to COVID-19 awards**

This new section highlights the following areas affecting single audits arising due to COVID-19:

- Background
- Identification of COVID-19 related awards and single audit applicability
- Clusters of programs
- Identification of COVID-19 related awards on the SEFA and SF-SAC (data collection form)
- Identification of compliance requirements for COVID-19 related awards
- Changes to compliance requirements for existing awards due to additional COVID-19 funding
- COVID-19 related OMB memoranda
- Responsibilities for informing subrecipients
- Identification of COVID-19 related awards in audit findings

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- Single audit due dates

See also our resource "[CFDA Notes](#)" for applicable information on the program you are auditing

### IDENTIFY DIRECT AND MATERIAL COMPLIANCE REQUIREMENTS

Determine if the requirement is direct *and* material for your auditee's award and activity (document your decisions on the attached template). Make sure to consider additional requirements in the grant contract/application. "Direct" means the activity is applicable/occurred for the federal award being audited while "material" is generally determined as:

Materiality	Is material when...	Example Materiality
Quantitative (i.e. dollars or number of times)	Costs or activity related to the requirement meets or exceeds our threshold established in the planning stage, usually 10% of total program expenditures or 10% of activity. Consider the compliance objective.	Monetary: They procured \$100,000 of equipment during the audit period, which is 15% of the expenditures. The procurement compliance requirement is material. Nonmonetary: They entered into a covered transaction during the audit period (contract of \$25k or more, paid all or in part with federal funds, or a subaward). Suspension and debarment is material.
Qualitative (i.e. effect of noncompliance on the program, needs and expectations of awarding agency)	The requirement is specifically listed in Part 4 of the Compliance Supplement (even if it is below quantitative materiality) and there is activity associated with the requirement. Other considerations are possible.	Quantitative materiality is 10%. The Compliance Supplement includes a 3% earmark for your program. It is material even though it is less than 10%.

***Note: auditors must consider qualitative factors, not just quantitative, when determining whether a compliance requirement is direct and material***

#### Reminders:

If you choose not to audit a certain compliance area, you must document the reason(s) for this decision in the attached worksheet. Refer to the Policy/Standards tab for more detailed guidance and examples.

ARRA Alerts have been removed from this testing strategy. However, be aware that there may be a few lingering programs to which it may apply (they are bolded in the Compliance Supplement).

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### **DIRECT AND MATERIAL CONSIDERATIONS FOR THE 12 BASIC COMPLIANCE REQUIREMENTS**

*Use the following as a guide for evaluating compliance requirements that are direct and material. Keep in mind if the program is included in Part 4 of the Compliance Supplement, we are only required to evaluate those areas subject to audit ("Y"). Remember, auditors must consider qualitative factors, not just quantitative, when determining whether a compliance requirement is direct and material.*

**A. Activities Allowed or Unallowed:** This requirement is usually direct and material to most awards by its nature. *Generally* does not apply to:

1. fixed price awards (where they meet milestones instead applying costs against the award)
2. most fee-for-service awards (e.g. 10.555 National School Lunch Program (at the local level)).

**B. Allowable Costs / Cost Principles:** This requirement is applicable to most awards\* and is direct and material when costs charged to the program meets or exceeds our threshold established in planning, usually 10%. The cost principles do not apply to (2 CFR 200.401):

1. Arrangements under which federal financing is in the form of loans, scholarships, fellowships, traineeships, or other fixed amounts based on such items as education allowance or published tuition rates and fees
2. For institutions of higher education, capitation awards, which are awards based on case counts or number of beneficiaries according to the terms and conditions of the federal award.
3. Fixed amount awards. See also Subpart A—Acronyms and Definitions, §§200.45 Fixed amount awards and 200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts.
4. Federal awards to hospitals (see Appendix IX to Part 200 – Hospital Cost Principles.
5. Other awards under which the non-federal entity is not required to account to the federal government for actual costs incurred.

*\*See Appendix I to the Compliance Supplement for programs excluded from the Cost Principles*

**C. Cash Management -** This requirement is generally always direct and material to cash awards, whether the entity operations on a reimbursement or cash advance basis. It is not applicable for non-cash awards (e.g. federal equipment, real property, supplies or commodities received).

**D. RESERVED.** Davis-Bacon Act requirements were moved to special tests and provisions (see below).

**E. Eligibility:** This requirement is "direct" when a program has targeted participants (e.g. Section 8 housing and school Nutrition Cluster participants must be low-income) or subrecipients. It is quantitatively material if the activity (determining eligibility of individuals or subrecipients) associated with the funding meets or exceeds our threshold established in planning, usually 10%. If not, consider the effect on the program if

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participants were ineligible (e.g. \$25k in questioned costs). See information below on split eligibility determination functions. If your auditee is performing the eligibility function for the state, the state maintains the computer systems supporting the eligibility determinations, and the state is paying the participant, eligibility of participants may not be applicable. Contact the single audit specialist with questions.

**Split Eligibility Determination Functions** Some non-federal entities pay the federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, **a state arranges with local government social services agencies to perform the “intake function” (e.g., the meeting with the social services client to determine income and categorical eligibility), while the state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. In such cases, the state is fully responsible for federal compliance for the eligibility determination, as the benefits are paid by the state. Moreover, the state shows the benefits paid as federal awards expended on the state’s Schedule of Expenditures of Federal Awards. Therefore, the auditor of the state is responsible for meeting the internal control and compliance audit objectives for eligibility.** This may require the auditor of the state to perform, coordinate, or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions. The responsibility of the auditor of the state for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity’s responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the state that certain procedures are not necessary.

### **F. Equipment and Real Property Management:**

Definitions per Uniform Guidance:

"Equipment": Tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization threshold established by the auditee for financial statement purposes, or \$5,000.

"Real property": Land, including land improvements, structures and appurtenances thereto, acquired or improved with federal funds. Does not include moveable machinery and equipment.

"Intangible property": property having no physical existence, such as trademarks, copyrights, patents and patent applications and property, such as loans, notes and other debt instruments, lease agreements, stock and other instruments of property ownership (whether the property is tangible or intangible).

Note: Intangible property that is acquired under a federal award, rather than developed or produced under the award, is subject to the requirements of 2 CFR 200.313(e) regarding disposition.

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Determining materiality for this requirement the auditor should consider not only the dollar amount of equipment purchased or received (non-cash award) during the audit period, but should include qualitative considerations because the audit objective encompasses testing requirements related to:

- Inventory, maintenance, and safeguarding of equipment from the same program/CFDA obtained during the audit period *and in the past*;
- Disposal of equipment or real property over \$5,000 from the same program/CFDA from assets obtained during the audit period *and in the past*; *and*
- Acquisition and/or improvement of equipment or real property during the audit period.

Use auditor judgement to determine the significance of these activities in relation to the program. Consider things such as the amount of federal equipment from this program (for example a fleet of vehicles currently and/or previously purchased with the same type of federal funds would be hard to justify not being material), current purchases/construction is significant to the award project or total expenditures, etc.

**G. Matching:** This is “direct” when an entity is required to contribute state/local funds to “match” the federal award. It is quantitatively material if the amount of the match meets or exceeds our threshold established in planning, usually 10%. If not, it would generally be considered qualitatively material because awarding agencies expect the match to be met by an allowable source. Also, consider that if they provide less match than required, it could result in questioned costs. For example, a \$100,000 award was 95% federal and 5% local match. The entity applied \$95,000 to the federal award and was reimbursed. If they only had \$4,000 in allowable match costs that means:

1. The \$4,000 of allowable match must represent 5% of the program.
2. The total program at that point is only \$80,000 ( $\$4,000 / 5\% = \$80,000$ ).
3. Allowable federal expenditures could not exceed \$76,000 ( $\$80,000 \times 95\% = \$76,000$ ).
4. We would identify *questioned costs* of \$19,000 ( $\$95,000 - \$76,000 = \$19,000$ ).

**G. Level of Effort:** This is “direct” when an entity is required to complete a minimum level of effort, such as Maintenance of Effort or Supplanting. It is qualitatively material when it is included in the program’s scope per the Compliance Supplement or awarding documents.

**G. Earmarking:** This is “direct” when an entity is required to set aside funding for certain purposes. The requirement is qualitatively material when the requirement is included in the Compliance Supplement, despite the size of the earmark (generally less than 10%). Other qualitative factors can apply when the program is not in the Compliance Supplement, such as the significance a grantor places on the requirement or the auditor’s judgement of risk.

**H. Period of Performance** (formerly Period of Availability): It is qualitatively “direct *and* material” when the award *starts* and/or *ends* during the audit period. Consider the timing of the start/end date and/or if it has been audited previously (for example the start or end date was just one month out and we had not previously audited it, consider it material). Be sure to have an understanding of the dates of the costs that were

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charged to the award as the risk is a cost charged to the award during the audit period may have either been a cost prior to the start date with no provision for pre-award costs or a cost that has not yet been incurred.

\*Note: We have to audit whether costs are in the period of performance as one of the cost principles (test B). However, we only identify and test key controls over the period of performance when it is direct and material. We will also perform additional risk-based testing.

### I. Procurement and Suspension and Debarment (S&D):

*Procurement* – quantitative measures are generally used in determining materiality with additional qualitative considerations. Use this decision matrix to determine if procurement is direct and material. Notice there are several situations that would result in procurement being direct and material:

*Procurement-Direct & Material Decision Matrix*

	Question	Yes	No
1	Are a material amount of expenditures during the audit period the result of a procurement action (i.e. quotes, bids, competitive or non-competitive proposals) performed or required to be performed <u>during the audit period</u> ?	These expenditures are considered Direct and Material	Go to the next question.
2	Are a material amount of expenditures during the audit period the result of a procurement action performed or required to be performed during the <u>prior year</u> and were those contracts/purchases previously <u>unaudited</u> ?  *Exp. that result from procurement completed more than one year ago do not have to be considered.	These expenditures would typically be considered Direct and Material (use auditor judgement to include in scope)	Go to the next question.
3	Are expenditures from #1 and #2 added together quantitatively material (total contracts/purchases)?  *Exp. that result from procurement completed more than one year ago do not have to be considered.	These expenditures would typically be considered Direct and Material (use auditor judgement)	Go to the next question.
4	Did the entity complete a procurement action in the current audit period for which a material amount of expenditures will be charged in the next audit period (assuming there were no or an immaterial amount of expenditures during the audit period)?	Procurement could be considered direct and material (use auditor judgement to determine which year to audit).	Procurement is <u>not</u> Direct and Material.

**Note that if you conclude procurement is not direct and material, the procurement policies/procedures do not have to be reviewed.**

*Suspension and Debarment* – Determining materiality for this requirement should be based on quantitative (non-monetary) factors, whether or



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not the auditee entered into any **covered transactions** during the audit period as opposed to associated expenditures. The reason you consider covered transactions as opposed to associated expenditures is the audit objective requires determining if the auditee “verified” the status of each covered transaction. Therefore, if there is a covered transaction during the audit period, the requirement would be direct and material. Note that if you decide to audit any procurement actions from the prior period (per the procurement matrix above), any contracts of \$25K or more, paid all or in part with federal funds, those should be included in the scope (assuming not audited last year).

What is a covered transaction?	
Award made to:	Threshold
Subrecipient	No threshold. They must verify S&D for each new subaward.
Contractor (formerly referred to as vendor)	Contracts (including purchase orders) and purchases over \$25,000, paid all or in part with federal funds. Applies to each new contract (or total purchases to one contractor during the audit period for like-kind items).

**J. Program Income:** This is “direct” when the operations of the federal program generate money (e.g. collection of loan origination fees for loan programs, inoculation fees for vaccine programs, or sale proceeds from federally purchased/improved assets for some programs.) It is quantitatively material if either program income revenue or program income expenditures during the audit period meets or exceeds our threshold established in planning, usually 10% since the requirement focuses on both the collection and management of the revenue, and the associated expenditures.

**K. RESERVED:** There are no requirements for this section.

**L. Reporting:** This is “direct” and generally considered qualitatively material when the entity is required to complete reports per the Compliance Supplement or grant agreement, or submits requests for advance or reimbursement. NOTE: for purposes of programs included in Parts 4 and 5 of the Compliance Supplement, the designation “Not Applicable” in relation to “Financial Reporting (includes requests for advance or reimbursement),” “Performance Reporting,” and “Special Reporting” means that **the auditor is not expected to audit anything in these categories, whether or not award terms and conditions may require such reporting.**

*Also note that sometimes reporting requirements are only applicable at the State or pass-through level. If that’s the case, be sure to document your rationale, how you determined the reporting requirement is not applicable at the local or subrecipient level. If you are unsure or we need confirmation, either have the entity reach out to its awarding agency to confirm or contact the Single Audit Specialist via the HelpDesk.*

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### **CAUTION: Per the Addendum to the 2020 Compliance Supplement:**

#### **Federal Funding Accountability and Transparency Act (FFATA)**

Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).

For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (*referring to the Transparency Act*) using the guidance in this section (*referring to 3-L of the 2020 Compliance Supplement Addendum*) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.

In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 *Compliance Supplement* when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.

**M. Subrecipient Monitoring:** This is “direct” when the entity has subrecipients. It is quantitatively material when total disbursements to subrecipients is at least 10% of the program’s expenditures during the audit period.

NOTE: If you are not sure if a lower tier is a subrecipient or a contractor, consult with the auditee, the relationship should be defined in the contract/agreement (required per the Uniform Guidance). It is the substance of the award that determines how it should be treated and ultimately it is the pass-through entities responsibility to determine the relationship and identify the relationship in the awarding documents. If the auditee is unclear, the awarding agency may need to be consulted to weigh in (the Single Audit Specialist can help with that). Finally, you can refer to the subrecipient/contractor checklist available on the [intranet](#).

**N. Special Tests and Provisions – Wage Rate Requirements (Davis Bacon Act):** This is “direct” when the entity has construction contracts in excess of \$2,000. Use quantitative factors based on the amount of contractor expenses applied to the federal award during the audit

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period to determine if the requirement is material.

**N. Other Special Tests and Provisions:** These are program-specific requirements that are based on generally evaluated using qualitative factors (special tests and provisions are important to federal awarding agencies or they would not have included them in Part 4 of the Compliance Supplement, so when it applies, it is expected to be audited). They are direct and material when either:

a. For programs included in Part 4 of the Compliance Supplement:

- 1) it applies to your entity type (state or local)
- 2) and/or it applies to the activity of the audit period (e.g. if there is a special test for the relocation of utilities on highway right-of-ways [CFDA 20.205] but there were no utilities in the project, then it doesn't apply.)

**OR**

b. For programs not included in Part 4 of the Compliance Supplement, and the requirement is included in the award terms and conditions. See Part 7, use auditor judgement, and consider limiting the testing to those that:

- 1) can result in material noncompliance and/or known questioned costs exceeding \$25,000
- 2) affect a significant part of the program (significant dollar amounts)
- 3) there are penalties for non-compliance, such as the entity must repay the award or the grantor will reduce future awards.

Guidance/Criteria.\*

[Compliance Supplement for 2020 Part 3 & 6 Excerpt](#) - an excerpt from Part 3 (Compliance Requirements) and Part 6 (Internal Controls) for the 2020 Compliance Supplement

### WHICH COMPLIANCE REQUIREMENTS DO I TEST?

1. Use the following sources of information to identify the compliance requirements that apply to your federal program.

Obtain a copy of the grant agreement(s) or contract(s) that were in effect during the audit period. Determine which criteria applies to the award(s) – Uniform Guidance or the old OMB Circulars (the 2020 Compliance Supplement notes it should be rare that auditors are reviewing activities for federal awards made prior to Uniform Guidance – prior to 12/26/14).

Obtain a report of federal expenditures for the program (sorted by object if possible) and determine the areas in which funds were spent. Examples: salaries and benefits, materials/supplies, equipment, travel, contracts for goods and services, construction, etc. It's very

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important to have a clear understanding of the types of costs and activities that made up the expenditures.

Review the applicable Compliance Supplement (see guidance in the testing strategy on using the 2020 compliance supplement) available on the SAO Intranet under AUDITOR RESOURCES / REFERENCE GUIDE / FEDERAL. The following is a summary of the Parts, auditors are encouraged to read the Supplement for themselves.

2. Next, of the requirements that apply to the program you are auditing, determine those that have a direct and material effect. You can (and should) limit your testing to only those compliance areas that have a **direct** and **material** effect on the program. Even though a compliance requirement applies to the Federal program in general, it may not apply at a particular auditee, either because that auditee did not have activity subject to that type of compliance requirement or the costs or activity does not have a material effect on a major program. **Be sure to first have a clear understanding of the types of costs and activities that made up the expenditures because it will help you determine which compliance requirements are direct and material.**

Examples:

(1) You are auditing a city that received as pass-through grant from a state agency. You look in Part 4 of the Compliance Supplement and see that a federal Financial Status Report (called the 'SF425') is listed as being applicable to the program. However, you find that for this particular program, this **Reporting** requirement is a responsibility of the state pass-through agency, not your city. Therefore, this compliance area is not applicable to your audit.

(2) You read the terms and conditions of the grant agreement and see that the **Period of Performance** (formerly Period of Availability) is for three years, with a beginning date that started before the audit period and an ending date that closes after the audit period AND the costs charged to the award were all incurred during the audit period. While this requirement applies to the grant, it is not direct and material in the audit period.

(3) You find in the grant agreement that the auditee is required to comply with all state and local laws for **Procurement** of goods and services. Your review of the auditee's transactions shows only two contractor purchases totaling \$5,000. The total grant award was \$200,000. Therefore, procurement is applicable, but it is not material to your audit (i.e., transactions relating to the procurement requirement were only 2.5% of the total grant when our minimum materiality threshold was established at 10%).

(4) For **Equipment**, using the same information in #3, the total purchases were only \$5,000, 2.5% of the program. But in the last three years, the auditee has received an award for the same program (same CFDA number) and has 100 pieces of equipment from that program with a total acquisition cost of \$300,000. On a qualitative level, there are many pieces of equipment associated with the program. Although purchases are not significant this year, there are continuing compliance requirements on the other equipment items that we would test such as inventory procedures, safeguarding, maintenance, and disposal. Therefore, we would conclude the requirement is direct and material.

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(5) A grantee earned and spent \$25,000 of **Program Income** during the year. This amount is 1% of the total grant. Even though this amount meets our \$25,000 questioned cost threshold, this does not cause Program Income to be a material compliance area because it is less than 10%. (During your planning, or in the course of the audit, if you become aware of known questioned costs that exceed \$25,000 in a compliance requirement that is not otherwise material to the program, we should report this in a finding.)

**Refer to the following Parts of the Compliance Supplement as applicable in performing the audit of the major program:**

### **Part 2 Matrix of Compliance Requirements**

The Matrix of Compliance Requirements (Matrix) identifies the federal programs and compliance requirements addressed in the Supplement and associates the programs with the applicable (subject to audit) compliance requirements. The Matrix also identifies the applicable federal agency and the *Catalog of Federal Domestic Assistance* (CFDA) number for each program included in the Supplement. (**Note:** The entry for each program/cluster also is included in the program/cluster in Part 4 or Part 5 of the Supplement.)

### **Part 3 Compliance Requirements**

Part 3 lists and describes the 12 types of compliance requirements and, except for Special Tests and Provisions, the related audit objectives that the audit must consider, as applicable, in every audit conducted under 2 CFR 200, subpart F Audit Requirements, with the exception of program-specific audits performed in accordance with a federal agency's program-specific audit guide. The auditor is responsible for achieving the stated audit objectives for the applicable compliance requirements.

Suggested audit procedures are provided to assist the auditor in planning and performing tests of non-federal entity compliance with the requirements of federal programs. The suggested audit procedures are, as the name implies, only suggested. Auditor judgment is necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives and whether alternative audit procedures are needed. Determining the nature, timing, and extent of the audit procedures necessary to meet the audit objectives is the auditor's responsibility.

### **Part 4 Agency Program Requirements**

For each federal program included in the Supplement, Part 4 discusses program objectives, program procedures, and compliance requirements that are specific to the program. With the exception of section III.N, "Special Tests and Provisions," the auditor must refer to Part 3 for the audit objectives and suggested audit procedures that pertain to the program-specific compliance requirements associated with the programs. Since, in general, Special Tests and Provisions are unique to each program, the specific audit objectives and suggested audit procedures for each program are included in Part 4.

### **Part 5 Clusters of Programs (clusters are updated annually)**

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A cluster of programs is a grouping of closely related programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements in 2 CFR part 200, subpart F (see definition at 2 CFR section 200.17).

The types of clusters included in Part 5 are: Research and Development (R&D), Student Financial Assistance (SFA), and other clusters. "Other clusters" are as identified in the Supplement or designated in a state award document. Part 5 provides compliance requirements, audit objectives, and suggested audit procedures for the R&D and SFA clusters, and lists other clusters included in Part 4.

In planning and performing the audit, the auditor can determine whether programs administered by the non-federal entity are part of a cluster by referring to both the provisions of Part 5 of the Supplement and the state award documents. **Note that if the entity uses our online filing option to prepare its SEFA, we update the clusters annually so they should be reported correctly.**

### **Part 6 Internal Control**

As a condition of receiving federal awards, non-federal entities agree to comply with laws, regulations, and the provisions of grant agreements and contracts, and to also maintain internal control to provide reasonable assurance of compliance within these requirements. The 2 CFR part 200, subpart F requires auditors to obtain an understanding of the non-federal entity's internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned. Part 6 addresses the objectives, principles, and components of internal control based on the "Standards for Internal Control in the Federal Government," ("Green Book"), issued by the Government Accountability Office, and the "Internal Control Integrated Framework" (revised 2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. **It also includes appendices that include illustrations of entity-wide internal controls over federal awards (Appendix 1) as well as illustrations of internal controls specific to each type of compliance requirement (Appendix 2).**

### **Part 7 Guidance for Auditing Programs Not Included in this Compliance Supplement**

Provides guidance to auditors in both identifying the compliance requirements and designing tests of compliance with such requirements for programs not included in the Supplement. If available, obtain a copy of federal handbook or program guidelines (most federal websites will have this information).

### **Part 8, Appendix I Federal Programs Excluded from Portions of 2 CFR 200**

Appendix I lists block grants and other programs excluded from the requirements of the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," which still may be in effect for some awards/funding and specified portions of 2 CFR part 200.

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## **Part 8, Appendix II Federal Agency Codification of Governmentwide Requirements and Guidance for Grants and Cooperative Agreements**

Appendix II includes regulatory citations for federal agencies' codification of the OMB guidance on (1) "Uniform Administrative Requirements, Cost Principles, and Audit Requirements" (in 2 CFR part 200) and (2) non-procurement suspension and debarment in 2 CFR part 180.

## **Part 8, Appendix III Federal Agency Single Audit, Key Management Liaison, and Program Contacts**

Appendix III identifies federal agency-level contacts—single audit and, separately, management liaisons—from whom auditors can request information about the agency's programs generally or the audit requirements of 2 CFR part 200, subpart F. It also includes, for each program/cluster listed in parts 4 and 5 of the Supplement, the name of a specific individual who can be contacted concerning that program, along with the individual's contact information.

## **Part 8, Appendix IV Internal Reference Tables**

Appendix IV provides a listing of programs in parts 4 and 5 that include IV, "Other Information." This listing allows the auditor to quickly determine which programs have other information, such as guidance on Type A and Type B program determination or display on the Schedule of Expenditures of Federal Awards. This appendix also indicates that the Medicaid Cluster is the only program currently identified as higher risk by OMB pursuant to 2 CFR section 200.519(c)(2).

## **Part 8, Appendix V List of Changes for the 2020 Compliance Supplement**

Appendix V provides a list of changes from the 2019 Compliance Supplement.

## **Part 8, Appendix VI Program-Specific Audit Guides**

Appendix VI includes a list of program-specific guides maintained by the federal agencies and indicates where to obtain them.

## **Part 8, Appendix VII Other Audit Advisories**

Appendix VII provides information on (1) the effect of implementation of the Uniform Guidance on major program determination; (2) the effect of changes to compliance requirements and other clusters; (3) the due date for submission of audit reports and low-risk auditee criteria; (4) the treatment of National Science Foundation and National Institutes of Health Awards; (5) the exceptions to the Guidance in 2 CFR Part 200; (6) the effect of National Defense Authorization Acts (NDAA) of 2017 and 2018; and (7) audit sampling.

## **Part 8, Appendix VIII Examinations of EBT Service Organizations**

Appendix VIII provides guidance on audits of state electronic benefits transfer (EBT) service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under the Supplemental Nutrition Assistance Program (CFDA 10.551) in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Standards for Attestation Engagements

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(AT-C) section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*.

### **Part 8, Appendix IX Compliance Supplement Core Team**

Appendix IX provides a listing of the Compliance Supplement Core Team members who were responsible for the production of the Supplement.

#### Record of Work Done:

This section provides (1) an overview of the grant program, (2) [an overview of the City's AFG expenditures for fiscal year 2020](#), and (3) determination of direct and material compliance requirements.

### **Grant Program Overview**

The purpose of the Assistance to Firefighters Grant (AFG) program is to enhance the safety of the public and firefighters with respect to fire and fire-related hazards. The program provides direct financial assistance to eligible fire departments, non-affiliated emergency medical service (EMS) organizations, and State Fire Training Academies (SFTA). The funds provide critically needed resources that equip and train emergency personnel to recognized standards, enhance operational efficiencies, foster interoperability, and support community resilience.

The AFG program also addresses the following core capabilities of the National Preparedness Goal:

- fire management and suppression
- environmental response/health and safety
- Threats and hazards identification
- Public health, healthcare, and emergency medical services
- operational coordination
- operational communications
- mass search and rescue operations
- community resilience
- long-term vulnerability reduction

### **2020 Grant Expenditures**



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The City submitted grant applications in response to the US. Department of Homeland Security, Federal Emergency Management Agency's Notice of Fund Opportunity (NOFO) for fiscal years 2018, 2019, and 2020. The City was awarded \$201,006.66, \$161,904.76, and \$6,710.86 in AFG funding, as illustrated in the table below.

Notice of Funding Opportunity (NOFO) Fiscal Year	Contract Number	Federal Award Amount	Period of Performance	Attachments
2018	EMW-2018-FO-01923	201,006.66	9/5/2019 through 3/4/2022 (see amendment)	<a href="#">2018 Notice of Funding Opportunity PBC: 2018 FEMA NOFO</a> <a href="#">2018 Award Letter PBC: EMW-2018 Award Letter</a> <a href="#">2018 Grant Agreement PBC: FEMA EMW 2018 FO 01923</a> <a href="#">2018 Grant Agreement - Amendment PBC: EMW-2018 Amendment</a>
2019	EMW-2019-FG-01017	161,904.76	7/31/2020 through 7/30/2022 (see amendment)	<a href="#">2019 Notice of Funding Opportunity PBC: 2019 FEMA NOFO</a> <a href="#">2019 Award Letter PBC: EMW-2019 Award Letter</a> <a href="#">2019 Grant Agreement PBC: FEMA EMW 2019 FG 01017</a> <a href="#">2019 Grant Agreement - Amendment PBC: EMW-2019 Amendment</a>
2020	EMW-2020-FG-00798	6,710.86	7/13/2020 through 7/12/2022 (see amendment)	<a href="#">2020 Notice of Funding Opportunity PBC: 2020 FEMA NOFO</a> <a href="#">2020 Award Letter PBC: EMW-2020 Award Letter</a> <a href="#">2020 Grant Agreement PBC:</a>

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				<u>FEMA EMW 2020 FG 00798</u> <u>2020 Grant Agreement -</u> <u>Amendment</u> <u>PBC: EMW-2020</u> <u>Amendment</u>
	<b>Total</b>	<b>369,622.28</b>		

- We traced reported grant information and amounts to underlying accounting records, including grant agreements and reimbursement requests as part of single audit planning at [Schedule of Expenditures of Federal Awards]. Per review of underlying accounting records and inquiries with the Fire Chief and Administrative Assistant, expenditures for the grant were used for accounts payable transactions. Further, there were no payroll or indirect costs charged to the grant. We created a summary of grant expenditures below:

Significant System	Amount	Testing
Accounts Payable	\$ 369,623	Controls and Compliance
<b>Total</b>	<b>\$ 369,623</b>	

### **Direct and Material Compliance Requirements**

The AFG is not listed in the 2020 Compliance Supplement. Therefore, we inquired with Clerk Treasurer, Steve Austin and reviewed the grant agreements related to the AFG expenditures reported on the City's Schedule of Expenditures of Federal Awards (SEFA) for fiscal year 2020 to identify applicable compliance requirements. We determined the following compliance requirements are both applicable and direct and material to the program:

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- F. Equipment (Real property management portion of this compliance requirement is not direct and material. The City did not use grant funds to purchase real property.)
- G. Matching
- G. Level of Effort
- H. Period of Performance
- I. Procurement / Suspension and Debarment
- L. Reporting (financial reporting only)

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See major federal programs spreadsheet here [\[Major Federal Program - Local teams\]](#).

### D.1.PRG - Assistance to Firefighters Grant - 97.044

*Procedure Step:* A-B-H Activities Allowed/Allowable Cost/Period of Performance

*Prepared By:* AR, 11/15/2021

*Reviewed By:* HVB, 1/25/2022

Purpose/Conclusion.

**Purpose:**

To determine if internal controls provide reasonable assurance that 1) Federal awards are expended only for allowable activities, 2) the direct and, as applicable, indirect costs charged to Federal awards comply with the applicable cost principles, and 3) Federal awards were only charged for allowable costs incurred during the period of performance and any pre-award costs were authorized by the awarding agency, and to test compliance with those requirements.

**Conclusion:**

We determined internal controls **do** provide reasonable assurance that **Activities Allowed, Allowable Costs, and Period of Performance requirements** are met, and tested compliance with those requirements.

Based on our testing, we identified the following **control deficiencies, questioned costs, and/or noncompliance**, which we carried to the Major Federal Program worksheet [\[Major Federal Program - Local teams\]](#):

- **NONE**

Testing Strategy.

Perform the following steps:

1. Read and gather information.

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2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

***CAUTION: The following testing strategy does not include the suggested audit procedures for cost principles of Institutions of Higher Education (IHE) or Hospitals (hospitals are exempt from the cost principles but are subject to the requirements of 45 CFR part 75, Appendix IX, the Department of Health and Human Services implementation of Uniform Guidance) – see also 2 CFR 200 Appendix IX. Refer to the Compliance Supplement when auditing IHE and refer to aforementioned cost principles for Hospitals.***

### **Step 1: Read and Gather Information**

#### **ACTIVITIES ALLOWED & COST PRINCIPLES**

Identify Allowable Activities & Costs: Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:

1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.
3. Available program guidelines or handbooks. (Ex. [WSDOT's LAG Manual](#) for Highway Planning and Construction grants CFDA 20.205). Program guidelines and handbooks are often referenced in Part 4 of the Compliance Supplement.
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

#### **A. Direct Costs**

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award. See the policy/standard tab for specific time and effort requirements for **school districts**.

Automated Controls: If you are auditing a **school district** that relies on **Skyward** to calculate payroll and allocate those costs to federal programs (most districts), there is an automated control. Look below for information on how to rely on work of others because we have centrally completed this testing.

Substitute (i.e. alternate) Time Distribution System Plans

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Under Uniform Guidance, any award recipient may develop alternative methodologies for determining and documenting employee compensation charged to federal grants. Districts must have this methodology approved by OSPI. This is not frequently used. If this applies to your audit, refer to the policy/standard tab.

### Fixed Schedule Flexibility

OSPI has the authority to allow districts to use a “fixed schedule” (work on a pre-determined schedule with multiple cost objectives) system for time and effort reporting. If your district is using this system, refer to the policy tab for further guidance.

Workers Compensation and Unemployment Insurance: The entity may apply these costs through an indirect method such as internal service fund billings, external claims service arrangement, risk pool, etc.

Compensated Absences (leave cash-outs or accrual): The entity may include employees’ use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (10%) to the program.

## **B. Indirect Costs**

Generally, auditors should test internal controls and compliance for indirect costs when those costs are quantitatively material (10%) to the program.

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee’s agreement. These are discussed in the policy tab in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity’s (PTE’s) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

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## PERIOD OF PERFORMANCE

**Identify Period:** Review the awarding documents to determine the period that grant funds are available for expenditure (the official starting and ending dates) and whether there are any provisions for carryover. Sometimes the period is set by grantor standards (common for Federal Transportation Agency awards) and not explicitly stated in the award. If not evident in the agreement, request from the entity and confirm.

**Requirement:** Only allowable costs incurred during the period of performance and any costs incurred before the awarding agency made the federal award that were authorized by the awarding agency may be charged to the federal award. Unless an extension is authorized by the awarding agency, entities must liquidate all obligations incurred under the federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the award.

**Carry-over Funds:** The treatment of unspent award funds varies by grantor. Some grantors extend the period of performance for unspent funds. On the other hand, some grantors combine unspent funds with a new grant award, defining a new period of performance.

**Obligation Definition:** "Obligations" can vary by award but in general it means orders placed for property and services, contracts and subawards made, and similar transactions that require payment by awardee during the same or a future period (i.e funds are committed to be spent). See the policy/standard tab for the definition and examples of obligation.

## Step 2: Assess Inherent Risk (IR)

See steps to assess inherent risk in the Single Audit Planning Guide.

## Step 3: Gain an Understanding of Internal Controls

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

### Activities Allowed & Cost Principles

(a) Activities Allowed: award funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

\*SCHOOL DISTRICTS AUDITS: For payroll costs, there are controls you must use and can rely on work of others. Follow instructions in the policy/standard tab under "School District Payroll Controls."

(b) Cost Principles – Direct Costs: direct costs charged to the program comply with the cost principles set forth in 2 CFR 200 Subpart E (this may or may not be the same control activity for (a))

(c) Cost Principles -Indirect Costs: *if material (10%),* the entity uses the proper indirect cost rate as documented in their awarding documents. If the entity elected the de minimis rate, the rate is applied to the appropriate base amount and is used consistently under its

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federal awards. Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. For instance, the controls should ensure that they are using only allowable types of costs in the Modified Total Direct Costs (MTDC) or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely different from those in (a) and possibly (b).

### **Period of Performance**

(d) The federal award is only charged for allowable costs incurred during the period of performance or costs incurred prior to the date of the federal award was made that were authorized by the awarding agency (this may include review of expenditures to determine if they are within the period of the award, or if the entity is applying for and receiving approval for carryover).

\*Avoid the use of "knowledge" or generic program oversight as the control. A control is likely performed during the preparation of the reimbursement request.

(e) Obligations are liquidated within the required time period.

### **Step 4: Assess Preliminary Control Risk (CR)**

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as "**low**" when:

(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

**Deficiencies Identified:** Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### **Step 5: Test Internal Controls**

If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

**Examples:** Refer to the Single Audit Planning Guide for suggestions and examples of control testing.

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Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the “Major Federal Program” spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### **Step 6: Assess Final Control Risk (CR)**

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a “significant deficiency” or “material weakness.”

### **Step 7: Assess the Risk of Material Non-Compliance (IR and CR)**

The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

### **Step 8: Test Compliance**

#### **A. Direct Costs**

Determine the method for how transactions are to be selected for testing. Options include, with details in the policy tab:

1. Sampling
2. Haphazard Selection
3. Judgmental Selection
4. Judgmental Population
5. All quantitatively material transactions



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## Reminders:

- Do not ignore types of costs that exceed 10% of the program, individually or in aggregate. These types of costs may have different control systems. See policy tab for example considerations if you are not familiar with this requirement. *Not required if you use the sampling or judgmental population methods.*
- Consider expanding testing if errors are identified. It may not be necessary if sampling is used since it can extrapolate errors.
- Be alert for federal expenditures that were transferred from state or local program. Transferred costs may not have met federal requirements (adequate support, federal procurement, period of performance, not allowable, etc.).

## 1. Selected Expenditures:

Test selected expenditures for compliance with the activities allowed and the Uniform Guidance cost principles using the A-B Expenditure Testing spreadsheet attached (if you are testing expenditures from Pre-UG awards, use the Pre-UG template found in the Audit Admin cabinet of the TeamStore). All of the attributes are included on the spreadsheet. Use the cell comments for additional guidance on each requirement.

## 2. Applicable Credits:

Inquire with the grant or program coordinators, review financial reports or other activities to identify credit transactions (refunds, reimbursements, discounts, liquidated damages, etc.). Select some credits and determine if they reduced program costs for reimbursement (i.e. reduced a subsequent billing) or repaid the amount to the grantor since the credit must be passed along.

## 3. Impact of unallowable costs

The auditor *should* consider the impact errors would have for “directly associated costs.” Directly associated costs are incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not happened.

Example: fringe benefits are “directly associated” with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.

## B. Indirect Costs

**Required:** You must test if indirect costs are at least 10% of the federal expenditures during the audit period.

1. **Method:** Select the testing strategy in the policy/standard tab that matches the entity’s method.

Rates Provided in Contract (including PTE’s negotiated rate)

De Minimis Indirect Cost Rate

Negotiated Rates & Allocation Plans – from Federal Cognizant Agency

Negotiated Rates & Allocation Plans – from Pass-Through Entity

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### 2. Impact of unallowable costs

The auditor *should* consider the impact indirect cost errors would have for “directly associated costs.” Directly associated costs are incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not happened.

### 3. Special Audit Procedures for Indirect Cost Rate Proposals (ICRP):

Interim Testing: If the audit is completed before the ICRP is completed, ***consider*** performing interim testing the cost pools and allocation bases and complete the testing in the next year’s audit. For audit exceptions from interim testing, corrective action may be taken earlier to minimize questioned costs in the completed testing.

Tests: If this situation applies to you, use the testing strategy in the policy tab.

## C. Period of Performance

### 1. Awards with a performance period beginning during the audit period

Test transactions for costs recorded before or at the beginning date of the period of performance and verify that the costs were not incurred prior to the start of the period of performance unless authorized by the grantor in writing.

### 2. Awards with performance period ending dates during the audit period:

Test transactions charged to the grant during the latter part and after the period of performance to verify that the costs had been incurred/obligated within the period of performance and paid within the allowable liquidation period.

### 3. Adjustments and transfers:

If there are adjustments (e.g., year-end journal entries) that add expenses to the federal award, test adjustments and verify that these adjustments only added transactions that occurred during the period of performance.

## Evaluate the results.

Note: Netting Questioned Costs: If you find the entity overbilled and underbilled the program, you *cannot* net them to determine total questioned costs. Overbilled amounts represent unallowable costs that are used to determine the level of non-compliance. Underbilled amounts just represent the availability of other costs that could have been considered allowable and are not an error.

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Guidance/Criteria:

**Compliance Supplement for 2020 Part 3 & 6 Excerpt** - an excerpt from Part 3 (Compliance Requirements) and Part 6 (Internal Controls) for the 2020 Compliance Supplement

## **Internal Control Understanding**

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

## **COST DEFINITIONS**

**Cost** means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the federal awarding or cognizant agency.

**Cost objective** means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

**Direct costs** are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

**Indirect costs** are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc.); and general administrative expenses such as accounting, payroll, legal and data processing expenses.

## **SCHOOL DISTRICT TIME AND EFFORT DOCUMENTATION REQUIREMENTS**

OSPI's imposed time and effort requirements are more restrictive than the federal requirements. In other words, until further notice, OSPI expects districts to continue to support compensation with semi-annual certifications, monthly PARs, or an approved substitute system. Refer to the policy tab for examples. Districts must follow OSPI's guidance as outlined in the **Addendum to Bulletin 048-17**. Examples are found in Attachments 1-4 of this Bulletin as follows:

**Attachment 1** – semi-annual certification – single cost objective

**Attachment 2** – monthly PAR – multiple cost objective/reconciliation to payroll records

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[Attachment 3](#) – monthly PAR with multiple cost objectives for employee with fixed-schedule (if not using “fixed schedule” system)

[Attachment 4](#) – employee certification and schedule – employee with fixed schedule (if using “fixed schedule” system)

See also OSPI’s Time and Effort Reporting Frequently Asked Questions [here](#)

### [Time and Effort Documentation \(support for payroll charges to grant\)](#)

OSPI’s imposed time and effort requirements are more restrictive than the federal requirements. In other words, until further notice, OSPI expects districts to continue to support compensation with semi-annual certifications, monthly PARs, or an approved substitute system. Refer to the policy tab for examples and resources.

<i>What is a...?</i>		
	PAR	Semi-Annual Certification
It’s a:	Certification for working on multiple activities related to more than one cost/funding objective.	Certification for working only on activities related to one cost/funding objective.
Looks like:	Accounts for <u>total</u> work activity. May have separate PARs for the base and supplemental contracts or have them together. Similar to a timesheet. Identifies the cost objectives.	Done as a list of instructors or for individual instructors. Identifies the cost objectives.
Timely:	Done at least monthly, which must coincide with one or more pay periods.	Done at least twice a year (once every six months).
Actual Time:	Reflect actual time after work is performed.	Reflect actual time after work is performed (they certify this was the actual time to support or adjust the estimated time they've charged in the last six months)
Signatories:	Signed and dated by the employee. OSPI encourages supervisors with first-hand knowledge to sign the form.	Signed and dated by either employee or supervisor with first-hand knowledge of actual work performed.

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Other:	Agrees with any supporting documentation.	
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In brief, in most cases, time and effort requirements are:

<i>General Time and Effort Methods</i>		
Position	Building Funding Model	OSPI's Requirement*
Admin & Management (e.g. program director) allowable in limited situations	Works at District Office Targeted Assistance Building Schoolwide Building	PAR (e.g. monthly timesheet)
Instructor	Targeted Assistance	PAR (e.g. monthly timesheet)
Instructor	Schoolwide	Semi-annual certification – if they <i>only</i> teach at schoolwide buildings and <i>only</i> paid from funding sources combined in the schoolwide plan. In this instance, instruction is considered to be single cost objective. (PARs are also allowed but not required.)
Instructor	Schoolwide	PAR (e.g. monthly timesheet) - if they teach part-time at a schoolwide building and part-time at another building. Or, if their base contract is for them to perform part-time instruction and part-time admin/management.

\*This is the method used in most cases. However there can be exceptions. If your testing shows they used a contradictory method to this table, inquire with them regarding any exceptions and read OSPI's time and effort Bulletin and FAQ linked in the policy tab.

### **SCHOOL DISTRICT SUBSTITUTE (I.E. ALTERNATE) TIME DISTRIBUTION SYSTEM PLANS**

The use of such alternative or substitute time and effort systems requires the prior approval of OSPI (the plan is submitted to OSPI and retained for audit). Uniform Guidance requires these systems use statistically sound methods whereby time and effort for multiple cost objective staff is allocated to each of the various cost objectives based on a limited, but representative, sample of actual work done. Substitute systems may

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include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee work. Districts may find such systems to be more efficient than actual daily/monthly time and effort records for employees who do not have fixed schedules and/or appropriately serve different numbers of program eligible students from day to day.

**Fixed Schedule Flexibility:** The Department of Education (ED) permits the Office of Superintendent of Public Instruction (OSPI) to implement a substitute time and effort system for employees whose salaries are supported by multiple cost objectives, but who work on a fixed pre-determined schedule. In those cases, a Semi-Annual Certification (certifying the schedule reflects the actual time worked) is completed rather than a Personnel Activity Report (PAR). Districts that wish to implement the substitute system must ensure the system meets the guidelines published by ED, document and retain the system for audit, and then complete and return to OSPI the "Substitute System Fixed Schedule Certification Form" (**please note that OSPI does not "approve" the fixed schedule flexibility substitute system, but the district must submit the required certification form**). Second, they provided guidance to clarify the meaning of a "single cost objective." The latter has no policy impact on districts, it's merely for the sake of clarification. This published guidance is entitled "Granting Administrative Flexibility for Better Measures of Success". OSPI guidance on the substitute time and effort requirements can be found at: <https://www.k12.wa.us/policy-funding/school-apportionment/instructions-and-tools/tools-and-forms> – click on "Time and Effort and see attachments under Time and Effort Flexibility Guidelines.

See the fixed schedule flexibility certification form here: "\\ssv.wa.lcl\sao\OPEN\_SHARE\TAS\For\_Felicia\Substitute System Fixed Schedule Certification Form.pdf"

### SCHOOL DISTRICT PAYROLL AUTOMATED CONTROLS

If the District configured in the Skyward Payroll module to distribute on hours, instead of by pay, the cost distribution is based on salary information and not actual activity, this is an automated control.

### Step 3: Gain an Understanding of Internal Controls

**Rely on Work of Others – Software Calculation:** If the District relies on their computer system for payroll calculation and cost allocation, there are automated controls. We completed centralized testing of this control for the Skyward payroll modules and HR modules at C1-ITACentral-SP20. Copy and paste this key control statement and look in Step 5 below for testing for the portion of payroll calculated by Skyward. Contact IT Audit – System Auditors at [SAOITAudit@sao.wa.gov](mailto:SAOITAudit@sao.wa.gov) for any clarifications/questions.

"Payroll Expenditure Calculation: The District relied on the Skyward Payroll module to correctly calculate gross and net pay and retain cost allocation breakdown established in the profiles and tables for [all or portion of school year]."

For Districts that converted to QMLATIV at any point of the year, or used a third-party system that may, or may not, feed into

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Skyward, the automated controls will have to be independently tested using the TeamStore’s [Permanent File | IT Control Testing | IT Control Testing –Software Calculation for both the payroll calculation and cost allocation.](#)

**Step 5: Test Internal Controls**

Copy and paste this information into the ROWD if the district relies on Skyward to calculate payroll expenditures and cost allocation, and the District’s criteria for cost allocation is **based on pay**. Team IT’s centralized audit work is available for review in the TM audit file C1-ITACentral-SP20 or contact System Auditors at [SAOITAudit@sao.wa.gov](mailto:SAOITAudit@sao.wa.gov) with specific questions.

“Payroll Expenditure Calculation: The District relied on the Skyward Payroll module to correctly calculate gross and net pay and retain cost allocation breakdown established in the profiles and tables

Change Management was deemed the most relevant General IT Control to impact the cost allocation based on pay and payroll calculation. This process is the responsibility of WSIPC and individual Districts do not have a significant impact or involvement on the process. **Therefore, Change Management is not applicable for this District.** Documentation and work performed on Change Management can be found at C1-ITACentral-SP20."

For Districts that converted to QMLATIV at any point of the year, or used a third-party system that may, or may not, feed into Skyward, the automated controls will have to be independently tested using the TeamStore’s [Permanent File | IT Control Testing | IT Control Testing – Computer-Generated Reports and IT Control Testing – Software Calculation.](#) For Districts that set cost allocation to be based on hours, only the calculation on payroll expenditure can be relied upon. The District will need to have other controls to ensure that cost allocation was based on actual activities.

For Districts that used a third-party system that may, or may not, feed into Skyward or QMLATIV, the General IT controls will have to be independently tested during the [IT Control Testing – Software Calculation testing.](#)

**COMPENSATED ABSENCES AND LEAVE CASH-OUTS**

Entities can select either the Cash/Modified accrual basis OR Accrual basis of accounting. The accounting basis (cash/modified or accrual) selected for costing each type of leave must be consistently followed by the entity.

If the entity is charging leave cashouts or the accrual of leave to the grant, special rules apply. For the application of any leave cashouts, prior grantor approval may be required. Leave should only be applied to the federal award in the same proration as salaries and wages or other equitable rates. Also, the costs of fringe benefits are allowable provided the benefits are reasonable, equitably charged to activities, applied consistently and are required by law, district-employee agreement, or an established policy.

Fringe Benefits - Leave Charged to	
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<i>Grants</i> <i>(Entities select either Cash/ Modified</i> <i>Accrual Basis OR Accrual Basis)</i>		
	Cash & Modified Accrual Basis*	Accrual Basis**
Rule	Can only bill for leave actually used/taken.	Bill for the lesser cost of earned/accrued or funded leave liability.
What does that include?	<p>Leave cash-outs at termination or retirement or leave buybacks as allowed by policy. Limited to:</p> <p>1. Unused <i>current</i> year leave accrual: Can apply as a direct cost in the same proportion salaries/wages are charged to the program.</p> <p>2. Unused <i>prior year</i> leave accrual: Can apply indirectly as part of a general admin expense or part of the approved indirect cost plan.</p>	<p>"Funded"= a reserve <i>must</i> be paid to a <i>third-party</i> trustee (or insurer) who maintains a trust fund or reserve for the sole purpose of paying the specific fringe benefit for which the reserve is established.</p> <p>"Accrued"= the dollar value of leave earned by employees each pay period. (individuals' wage rate x hours earned)</p>



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	Leave taken (paid to employee as part of the normal monthly payroll)	If "funded" = ZERO (e.g. they don't fund leave accruals), costs are recognized when leave is paid.
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\*Requirements per: 2 CFR 200.431(b), OMB FAQ <https://cfo.gov/wp-content/uploads/2017/08/July2017-UniformGuidanceFrequentlyAskedQuestions.pdf> \*\*Requirements per: 200.431(b)(3)(ii)

### **GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS ([2 CFR 200.403](#))**

#### **What is a Reasonable Cost ([§200.404](#))? (cost principles)**

##### **EXAMPLES:**

1. A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee's purchasing agent. It so happens that this contractor's quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model of vehicle.

#### **What is an Allocable Cost ([§200.405](#))? (cost principles)**

A cost is considered allocable if the goods or services involved are chargeable or assignable to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in [Appendix III](#), [Appendix IV](#), [Appendix V](#), [Appendix VI](#) and [Appendix VII](#) to Part 200 (Uniform Guidance).

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### EXAMPLES:

1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.
2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

### **Applicable Credits ([§200.406](#)) (cost principles)**

A "credit" means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

- purchase discounts;
- rebates or allowances;
- recoveries or indemnities on losses;
- insurance refunds or rebates; and
- adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

### EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

### **Prior written approval ([§200.407](#)) (cost principles)**

### **Consistency ([2 CFR §200.403\(d\)](#)) (cost principles)**

A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

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### EXAMPLE:

A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

### **Grant Agreement Limitations ([§200.408](#)) (cost principles)**

To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

### EXAMPLE:

A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87 and [2 CFR §200.421](#).

### **Adequate Supporting Documentation (2 CFR §200.403(g)) (cost principles)**

Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

### EXAMPLE:

A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

### **Period of Performance ([2 CFR §200.309](#))**

### **SMALL POPULATION – SELECTION SIZE**

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Policy 3240 contains the following table for determining sample sizes for small populations:

**a. For populations of 365 or less, auditors may use the following table:**

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

### ADDITIONAL TESTING SELECTION INFO & EXAMPLES

<i>Selection Options</i>		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.
Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)
Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.

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Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain <b>types</b> of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use <b>only</b> when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of <i>other</i> types of costs, those transactions should be tested in some way, as well.

**INTERNAL CONTROLS – a “walk-through” is not a sufficient test of internal controls. A “walk-through” will assist you in documenting your understanding of the design of internal controls but it is not considered a sufficient amount of control testing to ensure the controls are working as designed and are effective in preventing and detecting noncompliance.**

### **DUAL PURPOSE TESTING EXAMPLE**

For allowable costs the key control is, “The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable.” You will test it by reperforming the Business Manager’s review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager’s signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperform the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

### **INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS**

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee’s agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity’s (PTE’s) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method

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4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

**1. Rate Provided by Grantor:** The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

**2. Use PTE Negotiated Rate:** The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

**3. De Minimis Indirect Cost Rate:** If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

**Restrictions:** The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

**NOTE:** Federal guidance clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate (*HOWEVER, this will be changing with the revised Uniform Guidance*).

**Consistency:** If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

**Rate:** Indirect costs are calculated as base costs multiplied by a flat 10% rate that does not require a true-up to actual indirect expenses.

**Base Used:** The 10% is multiplied by the modified total direct costs (MTDC) base.

<i>MTDC Base</i>	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs
Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships

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Up to \$25,000 of <i>each</i> subaward (regardless of the period of performance)	The portion of each subaward in excess of \$25,000
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**4. Negotiated Rates & Allocation Plans – Cognizant Agency:** Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The “cognizant agency for indirect costs” is designated as:

**For central service cost allocation plans:** the federal agency with the largest dollar value of *total* federal awards

**For indirect cost rates and cost allocation plans:** the federal agency with the largest dollar value of *direct* federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. **Provisional:** The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.
2. **Final:** The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.
3. **Predetermined:** This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.
4. **Fixed:** This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or “pay back” the variance going forward. The rate is effective for two years and then can be annually renewed.

**5. Negotiated Rates & Allocation Plans – PTE:** Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE’s, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

### **INDIRECT COST COMPLIANCE TESTS – BY TYPE OF RATE/ALLOCATION**

Select the testing criteria below that match the entity’s method (De Minimis Cost Rate, Federally Negotiated Cost Allocation Plans/Rates and other indirect rates).

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### **Rates Provided in Contract (including PTE's negotiated rate)**

Reminder: Use these tests only for those indirect cost rates that are not negotiated. The rate is just provided by the grantor or the entity is required to use someone else's negotiated rate.

1. Rate:

Select reimbursement requests using the small population table and determine whether the rate used was the one provided in the award contract. They are allowed to charge a smaller rate in most instances.

Alternatively, you can check the project end total direct costs vs. indirect costs to determine if, by the end of the project, the indirect cost proportion was the same as the rate provided in the award contract.

2. Base & Calculation:

If the contract requires the awardee to use a modified base, such as certain direct costs have to be excluded, use your selection from test #1 and determine whether the appropriate base was used.

### **De Minimis Indirect Cost Rate**

1. Restrictions:

Determine if the entity is allowed to use the method, that the entity has not previously claimed indirect costs on the basis of a negotiated rate. Auditors are required to test only for three fiscal years immediately prior to the current audit period that the entity has not had a negotiated rate. The auditor may want to record this information in the FAWF for the future reference.

2. Consistency:

Verify the de minimis rate was used consistently on all UG awards that include indirect costs. This may require inquiry with the grant managers throughout the entity, including at other departments if applicable.

3. Base & Calculation:

Select reimbursement requests using the small population table and determine if the items included in the MTDC were allowable per the Uniform Guidance requirements.

### **Negotiated Rates & Allocation Plans – from Federal Cognizant Agency**

1. Rate:

Obtain and read the indirect cost rate agreement (ICRA) in effect during the audit period that was **approved** by the cognizant agency. Select reimbursement requests using the small population table and determine whether the rate used was the one from the approved ICRA.

2. Base & Calculation:



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Determine if the cost base used was appropriate, such as:

- it includes only the types of costs mentioned in the ICRA,
- the costs were related to the program (allowable and meet the cost principles),
- the costs included are consistently treated in the current year as they were in the base year (e.g. the allocation base is total direct costs, verify that the audit year direct costs do not include items that were treated as indirect costs in the base year, as documented in the rate agreement), etc.

### 3. [Provisional Rate](#):

If the entity had a **provisional rate**, determined if the amount was trued-up accurately per supported actual costs through the final rate at the end of the project (as applicable depending on the period covered by audit.)

### 4. [Fixed Rate](#):

If the entity had a **fixed rate**, determine if the rate was trued-up on the required timeline, the true-up is accurate per supported actual costs, and the carry-forward is properly calculated.

## Negotiated Rates & Allocation Plans – from Pass-Through Entity

### 1. [Rate](#):

Obtain and read the rate/allocation proposal in effect during the audit period that was **approved** by a pass-through entity. Select reimbursement requests using the small population table and determine whether the rate used was the one from the approved rate/allocation proposal.

### 2. [Base & Calculation](#):

Determine if the cost base used was appropriate, such as:

- it includes only the types of costs mentioned in the approved proposal,
- the costs were related to the program (allowable and meet the cost principles),
- the costs included are consistently treated in the current year as they were in the base year (e.g. the allocation base is total direct costs, verify that the audit year direct costs do not include items that were treated as indirect costs in the base year, as documented in the rate agreement), etc.

## **INDIRECT COST TESTS – INDIRECT COST RATE PROPOSAL SPECIAL TESTS**

[Interim Testing](#): If the audit is completed before the ICRP is completed, *consider* performing interim testing the cost pools and allocation bases and complete the testing in the next year's audit. For audit exceptions from interim testing, corrective action may be taken earlier

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to minimize questioned costs in the completed testing.

(a) [Plan Elements](#): Verify that the ICRP includes these required elements:

Rates proposed	Required certification statement.
Subsidiary worksheets and other doc. reconciled and cross-referenced to financial data that support proposed rates.	Approx. amount of direct costs related to federal awards. Show salaries/wages separate from other direct costs.
Copy of financial data (annual reports, budgets, etc.) on which the rates are based.	Organizational structure chart, identifying duties or all agency units.

\*Refer to the next section in the policy tab below additional detail.

(b) [Indirect Cost Pool - Exclusions](#): Determine if these unallowable costs were excluded from the indirect cost pool:

<i>Indirect Cost Pool</i>
Costs Exclude
Capital expenditures
General government costs not allocable to federal awards
Unallowable per law or regulation
Unallowable per the Cost Principles and 2 CFR 200.420
Unallowable per terms/conditions of the federal award

(c) [Indirect Cost Pool – Changes](#): Identify significant changes in expense categories between the prior ICRP and the current ICRP. Test a sample of transactions to verify the allowability of the costs.

(d) [Indirect Cost Pool – Central Service](#): Trace the central service costs in the indirect cost pool to the approved State/local government or central service cost allocation plan, or to plans on file when the entity is not required to include the plan in their ICRP.

(e) [Direct Cost Base – Allocability](#): (1) Determine that the proposed direct cost base(s) include all activities that benefit from the indirect costs being allocated.

(f) [Direct Cost Base – Exp. Other than Salaries/Wages](#): If the base is not limited to direct salaries /wages, determine that distorting items

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are excluded from the base:

<i>Direct Cost Base</i>	
Distorting Items	
Capital expenditures	
Charges for patient care	
Participant Support Costs	
Rental Costs	
Tuition remission, Scholarships & Fellowships	
The portion of each subaward in excess of \$25,000	
General government costs not allocable to federal awards	
Unallowable per law or regulation	However, unallowable costs must be included if they represent activities to which indirect costs are properly allocable.
Unallowable per the Cost Principles and 2 CFR 200.420	
Unallowable per terms/conditions of the federal award	

(g) Direct Cost Base – Relatable Base: Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs). The base should be relatable to the indirect costs being allocated.

(h) Payroll Records: Examine employee compensation records to determine if:

1. payroll records are accurate (2 CFR 200.430),
2. salaries/wages are allowable
3. salaries/wages are properly allocated in the plan to the activities to which they were charged (paid from).

(i) Multiple Allocation Base Method: If the ICRP was prepared using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to determine if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.

### INDIRECT COSTS – DETAIL OF ICRP ELEMENTS

The elements are outlined in [2 CFR 200 Appendix VII, Paragraph D](#):

"2. Documentation of Proposals - The following must be included with each indirect cost proposal:

- a. The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data noted in subsection b. Allocated central service costs will be supported by the summary table included in the approved central service cost

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allocation plan. This summary table is not required to be submitted with the indirect cost proposal if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency for indirect costs and is available to the funding agency.

b. A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant agency for indirect costs in a subsequent proposal.

c. The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.

d. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)

3. Required certification - Each indirect cost rate proposal must be accompanied by a certification in the following form:

### *Certificate of Indirect Costs*

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish billing or final indirect costs rates for [identify period covered by rate] are allowable in accordance with the requirements of the Federal award(s) to which they apply and the provisions of this Part. Unallowable costs have been adjusted for in allocating costs as indicated in the indirect cost proposal

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct...[signatures]"

### **PERIOD OF PERFORMANCE**

Definition of obligation: an obligation is not necessarily a liability in accordance with GAAP. When an obligation occurs (is made) depends on the type of property or services that the obligation is for (34 CFR section 76.707 – see for table demonstrating obligations).

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IF AN OBLIGATION IS FOR --	THE OBLIGATION IS MADE --
(a) Acquisition of real or personal property.	On the date on which the State or subgrantee makes a binding written commitment to acquire the property.
(b) Personal services by an employee of the State or subgrantee.	When the services are performed.
(c) Personal services by a contractor who is not an employee of the State or subgrantee.	On the date on which the State or subgrantee makes a binding written commitment to obtain the services.
(d) Performance of work other than personal services.	On the date on which the State or subgrantee makes a binding written commitment to obtain the work.
(e) Public utility services.	When the State or subgrantee receives the services.
(f) Travel.	When the travel is taken.
(g) Rental of real or personal property.	When the State or subgrantee uses the property.
(h) A pre-award cost that was properly approved by the State under the cost principles.	On the first day of the subgrant period.

Record of Work Done.:

### **Inherent Risk of Noncompliance**

In accordance with AU-C sec. 935, we have considered the following inherent risk factors that apply to this compliance requirement:

- Is the compliance requirement new to the agency or has the requirement changed recently? - **NO**
- Is the compliance requirement considered an area of higher risk in the Compliance Supplement or by oversight agencies? **NO**

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- Does the compliance requirement involve a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program? **NO**
- Is there a lack of oversight by the grantor or pass-through agency? **NO**
- Is the compliance requirement relatively complex or are related activities difficult to audit? **NO**
- Are multiple locations or departments responsible for administering the requirement? **NO**
- When assessing the risk of Type A and Type B programs during single audit planning (refer to the risk assessment spreadsheet), did you find that this compliance requirement is one that is susceptible to fraud, theft of assets, or fraudulent reporting of financial or programmatic data to the grantor or public? **NO**

Based on these results, we assessed the inherent risk of noncompliance at **LOW**.

### **Key Personnel:**

Michelle Courtney, Administrative Assistant

Darren White, Fire Chief

Steve Austin, City Treasurer

### **Background Information:**

The City of Clarkston had three (3) active awards under the CFDA 97.044 Assistance to Firefighters Grant (AFG) during fiscal year 2020. The award numbers are EMW-2018-FO-01923, EMW-2019-FG-01017, and EMW-2020-FG-00798. Per our review of the Notices of Funding Opportunity (NOFO) for each award, we identified the following requirements for activities allowed, allowable costs, and period of performance for EMW-2018, EMW-2019, and EMW-2020:

### **Activities Allowed/Allowable Costs:**

- Eligible Activities: Operations and Safety (Personal protective equipment prioritized for EMW-2020), Vehicle Acquisition, Regional Projects
- Management and Administration (M&A): Allowable but should be based only on actual expenses or known contractual costs. No more than 3 percent of the federal share of each award may be expended for M&A.
- Indirect (Facilities and Administrative {F&A}): Allowable under this program as described in 2 CFR 200.414. With the exception of recipients who have never received a negotiated indirect cost rate, recipients must have an approved indirect cost rate agreement with their cognizant federal agency to charge indirect costs to this award.

### **Period of Performance:**

- Key Dates

Grant	Start Date	Original End Date	Amended End Date	Application Deadline	Award Date
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## City of Clarkston

EMW-2018	09/05/2019	09/04/2020	03/04/2022	10/26/2018	08/29/2019
EMW-2019	07/31/2020	07/30/2021	07/30/2022	03/13/2020	07/24/2020
EMW-2020	07/13/2020	07/12/2021	07/12/2022	11/13/2020	07/06/2020

b. Pre-Award Costs: Allowable if costs were incurred after the application deadline but prior to an offer of award, and only if the following conditions are met:

- i. The recipient must submit a written request to FEMA by providing notification to FEMA. This should be concurrent with the acquisition activity and must be submitted within the eligible time frame.
- ii. The recipient must receive confirmation from FEMA that the expenses have been reviewed and approved.
- iii. Fees for grant writers are considered an exception and may be included as a pre-award expenditure.

### **Breakdown of Grant Expenditures and Activity:**

Based on our review of grant expenditures, we noted 100% of the grant was used for non-payroll (accounts payable expenditures), as seen in the table below. We will focus our testing on accounts payable.

-

Expenditure Type	Total
Accounts Payable	\$369,623
<b>Total Expenditures</b>	<b>\$369,623</b>

### **Understanding of Internal Controls**

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

### **Activities Allowed & Cost Principles**

(a) Activities Allowed: award funds are used only for allowable activities - **Applicable**

(b) Cost Principles – Direct Costs: direct costs charged to the program comply with the cost principles set forth in 2 CFR 200 Subpart E - **Applicable**

(c) Cost Principles -Indirect Costs: *if material (10%)*, the entity uses the proper indirect cost rate as documented in their awarding documents. If the entity elected the de minimis rate, the rate is applied to the appropriate base amount and is used consistently under its federal awards. Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to. - **Not Applicable. The City did not charge indirect costs to this grant per our review of grant expenditures.**

### **Period of Performance**

(d) The federal award is only charged for allowable costs incurred during the period of performance or costs incurred prior to the date of the

## City of Clarkston

federal award was made that were authorized by the awarding agency - **Applicable.**

(e) Obligations are liquidated within the required time period. - **Applicable.**

### **Activities Allowed/Allowable Costs - Accounts Payable**

We inquired with the Fire Chief, Darren White, and the Fire Chief's Administrative Assistant, Michelle Courtney, to gain an understanding of the City's controls to ensure award funds are used only for allowable activities and direct costs charged to the program comply with the cost principles set forth in 2 CFR 200 Subpart E.

Once a grant funding opportunity arises, the Fire Chief searches for an available grant that would allow funding for the desired purchase. In this search, the Fire Chief reviews the Notices of Funding Opportunity and determines the equipment and training necessary for this purchase by obtaining quotes and proposals from vendors. If a grant is identified that allows funding for the Fire Chief's desired purchase, he presents a proposal to the City Council that if approved allows him to apply for the grant. If approved, the Fire Chief applies for the grant by submitting all necessary documentation to the Federal Emergency Management Agency (FEMA). FEMA reviews and will either accept or deny the grant application. If approved, FEMA sends the City's Fire Department a Notice of Award which is reviewed by the Fire Chief. As soon as the award is approved by FEMA, the Fire Chief takes the Notice of Award and supporting documentation for the desired purchase (i.e. quotes, bids) to the City Council for approval. The City Council then approves the award receipt and the Fire Chief moves forward with the purchase.

Purchases are initiated with the vendor by the Fire Chief or Administrative Assistant. Goods are purchased from the vendor on account. The vendor sends an invoice to the Fire Department which is received by the Administrative Assistant. The Fire Chief reviews the invoice and the delivered goods prior to approval to ensure that the invoice is legitimate and allowable per the Notice of Funding Opportunity (NOFO) (**Key Control #1**) The Fire Chief or his Assistant inventories the purchased equipment using the invoice to compare what was delivered to what was ordered. Once this review is complete, the Fire Chief uses a pink slip to record the date, account name, and applicable BARS code. The invoices are then sent for processing to the City's Finance Department. The invoices are reviewed first by a member of the Finance staff and secondly by the Clerk Treasurer. The Clerk Treasurer then enters the transaction into the City's financial system and takes all invoices for that period to be approved by the City Council at their next meeting. Once these expenditures are approved, the City Treasurer and his staff will cut checks to send to vendors within the next day after City Council approval.

Once an invoice is received, the Administrative Assistant uses the FEMA.GO website to submit reimbursement requests and attaches the invoice to the submission as proof of purchase. The Administrative Assistant refers to the Grant Notice of Award and the Obligating Document to ensure that only the maximum allowable amount is submitted for reimbursement if the total purchase amount exceeds the maximum allowable amount for reimbursement. FEMA then reviews and approves the payment request and disburses the money to the Fire Department. When the money is received, the Assistant receives an email notification. Within 1-3 days of receiving the money, the Assistant will use the funds to pay the amount listed on the invoice.

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### **Period of Performance**



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We inquired with the Fire Chief, Darren White, and the Fire Chief's Administrative Assistant, Michelle Courtney, to gain an understanding of the City's controls to ensure the federal award is only charged for allowable costs incurred during the period of performance or costs incurred prior to the date of the federal award was made that were authorized by the awarding agency and obligations are liquidated within the required time period. During the grant selection process, the Fire Chief reviews the period of performance to ensure that they can obtain the desired purchase within the period of performance. Once a grant is selected and approved, the purchase initiated, and invoice received, the funds are applied for online via the FEMA.GO website. The Administrative Assistant noted that both she and the Fire Chief receive notices when and if the period of performance is extended for certain awards. When the Administrative Assistant applies for reimbursement, she compares the invoice effective dates to the Notices of Funding Opportunity (NOFOs), obligating documents, and subsequent period of performance amendments to ensure the reimbursement request only includes costs incurred within the correct period of performance (**Key Control #2**).

### Key Controls:

Based on our understanding, we identified the following key controls over activities allowed, allowable costs, and period of performance:

- **1. Key Control #1 (Activities Allowed/Allowable Costs - Accounts Payable):** The Fire Chief reviews the invoice and the delivered goods prior to approval to ensure award funds are used only for allowable activities and direct costs charged to the program comply with the cost principles set forth in 2 CFR 200 Subpart E.
- **2. Key Control #2 (Period of Performance):** When the Administrative Assistant applies for reimbursement, she compares the invoice effective dates to the Notices of Funding Opportunity (NOFOs), obligating documents, and subsequent period of performance amendments to ensure the reimbursement request only includes costs incurred within the correct period of performance.

### Evaluation of Results:

Did you identify any control deficiencies? **No.** We did not identify any control deficiencies.

If so, **you must:**

- 1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. **N/A**
- 2. Document the rationale for a LOW or HIGH risk assessment. **N/A**

### Preliminary Control Risk Assessment

Based on our understanding of key internal controls, we assess preliminary control risk at:

Activities Allowed & Cost Principles **LOW**  
Period of Performance **LOW**

### Internal Control Testing

**Key Control #1 (Activities Allowed/Allowable Costs - Accounts Payable):** The Fire Chief reviews the invoice and the delivered goods

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prior to approval to ensure award funds are used only for allowable activities and direct costs charged to the program comply with the cost principles set forth in 2 CFR 2000 Subpart E.

Dual Purpose Testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We obtained all 12 invoices for 2020 expenditures that were paid for with AFG federal funds, totaling \$369,623. There were 7 invoices for grant EMW-2018, 3 invoices for grant EMW-2019, and 2 invoices for grant EMW-2020. Due to the small size of the population, we determined that sampling would be unnecessary and that we would test all invoices. We conducted our testing here [[A-B-H - Expenditure Testing](#)]. We noted that a pink slip was attached to all invoices. Each pink slip noted the vendor number, invoice number, invoice date, check date, and invoice amount. Additionally, the pink slips list the applicable BARS code, which identifies the expenditure was allocated and charged to the Assistance to Firefighters Grant. Each slip was signed by either the former Fire Chief, Ryan Baskett, or the current Fire Chief, Darren White. The signatures indicate that the Fire Chief is reviewing each invoice to ensure that award funds are used only for allowable activities and direct costs charged to the program comply with the cost principles set forth in 2 CFR Subpart E.

Based on the evidence provided, we determined this key control is in place and operating effectively.

**Key Control #2 (Period of Performance):** When the Administrative Assistant applies for reimbursement, she compares the invoice effective dates to the Notices of Funding Opportunity (NOFOs), obligating documents, and subsequent period of performance amendments to ensure the reimbursement request only includes costs incurred within the correct period of performance.

Dual Purpose Testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We obtained all 12 invoices for 2020 expenditures that were paid for with AFG federal funds, totaling \$369,623. There were 7 invoices for grant EMW-2018, 3 invoices for grant EMW-2019, and 2 invoices for grant EMW-2020. Due to the small size of the population, we determined that sampling would be unnecessary and that we would test all invoices. Additionally, we obtained the most recent period of performance amendments found here: [[PBC: EMW-2018 Amendment](#)], [[PBC: EMW-2019 Amendment](#)], and [[PBC: EMW-2020 Amendment](#)]. We conducted our testing here [[A-B-H - Expenditure Testing](#)]. We evaluated each invoice to ensure that the purchase was made within each award's period of performance.

Based on the evidence provided, we determined this key control is in place and operating effectively.

### Evaluation of Results:

Did you identify any control deficiencies? - **No.** We did not identify any control deficiencies.

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. **N/A**
2. Document the rationale for a LOW or HIGH risk assessment. **N/A**

### Final Control Risk Assessment

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We assess final control risk at:

Activities Allowed & Cost Principles **LOW**

Period of Performance **LOW**

### **Risk of Material Noncompliance**

We assess the risk of material noncompliance at:

Activities Allowed & Cost Principles **LOW**

Period of Performance **LOW**

### **Compliance Testing**

#### **A. Direct Costs**

Determine the method for how transactions are to be selected for testing. Options include, with details in the policy tab:

Due to the small size of the population (12), we determined that sampling would be unnecessary and that we would test all invoices.

#### 1. Selected Expenditures:

Test selected expenditures for compliance with the activities allowed and the Uniform Guidance cost principles using the A-B Expenditure Testing spreadsheet attached (if you are testing expenditures from Pre-UG awards, use the Pre-UG template found in the Audit Admin cabinet of the TeamStore). All of the attributes are included on the spreadsheet. Use the cell comments for additional guidance on each requirement.

Direct costs of \$369,623 are comprised of non-payroll expenditures. We performed the following test to determine whether expenditures were in compliance with activities allowed requirements and Uniform Guidance cost principles.

To determine if non-payroll expenditures were in compliance with the activities allowed and the Uniform Guidance cost principles, we performed dual purpose testing in conjunction with our internal control testing. As noted above, total grant expenditures of \$369,623 are comprised of 12 invoices. We determined it would be most efficient to test all invoices and therefore did not sample. We reviewed each invoice for compliance with the activities allowed and cost principles requirements using the A-B testing spreadsheet. Based on our testing, we conclude expenditures tested were allowable and complied with applicable cost principles. See dual purpose testing here [[A-B-H - Expenditure Testing](#)].

#### 2. Applicable Credits:

Inquire with the grant or program coordinators, review financial reports or other activities to identify credit transactions (refunds, reimbursements, discounts, liquidated damages, etc.). Select some credits and determine if they reduced program costs for reimbursement (i.e. reduced a subsequent billing) or repaid the amount to the grantor since the credit must be passed along.

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**Not Applicable.** We spoke with the Fire Chief and the Administrative Assistant, reviewed reimbursement requests, and grant expenditure reports. We did not identify any credits that reduced program costs for reimbursement or any credits that would require the City to repay the grantor.

### 3. Impact of unallowable costs

The auditor *should* consider the impact errors would have for “directly associated costs.” Directly associated costs are incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not happened. Example: fringe benefits are “directly associated” with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.

**Not Applicable.** There were no improper payments for unallowable costs identified during testing.

## B. Indirect Costs

**Not Applicable.** We spoke with the Fire Chief and the Administrative Assistant, reviewed reimbursement requests, and grant expenditure reports and did not identify any indirect costs charged to the grant.

## C. Period of Performance

### 1. Awards with a performance period beginning during the audit period

Test transactions for costs recorded before or at the beginning date of the period of performance and verify that the costs were not incurred prior to the start of the period of performance unless authorized by the grantor in writing.

### 2. Awards with performance period ending dates during the audit period:

Test transactions charged to the grant during the latter part and after the period of performance to verify that the costs had been incurred/obligated within the period of performance and paid within the allowable liquidation period.

We performed one test to address C. Period of Performance steps #1 and #2.

We reviewed grant agreements, NOFOs, and amendments to NOFOs and identified the period of performance dates for each grant as follows:

Grant	Start Date	Original End Date	Amended End Date	Application Deadline	Award Date
EMW-2018	09/05/2019	09/04/2020	03/04/2022	10/26/2018	08/29/2019
EMW-2019	07/31/2020	07/30/2021	07/30/2022	03/13/2020	07/24/2020
EMW-2020	07/13/2020	07/12/2021	07/12/2022	11/13/2020	07/06/2020

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To determine if non-payroll expenditures were in compliance with the activities allowed and the Uniform Guidance cost principles, we performed dual purpose testing in conjunction with our internal control testing. Total grant expenditures of \$369,623 are comprised of 12 invoices. We determined it would be most efficient to test all invoices and therefore did not sample. We reviewed each invoice to identify the effective date (date expenditure was incurred) and payment date (date expenditure was paid). We compared dates to the correct period of performance to determine whether costs had been incurred/obligated within the period of performance and paid within the allowable liquidation period. Based on our testing, we conclude the City complied with period of performance requirements. See dual purpose testing here [[A-B-H - Expenditure Testing](#)].

### 3. Adjustments and transfers:

If there are adjustments (e.g., year-end journal entries) that add expenses to the federal award, test adjustments and verify that these adjustments only added transactions that occurred during the period of performance.

**Not Applicable.** The Fire Chief and Administrative Assistant provided us with all invoices and payment requests for the AFG grant awards. Additionally, we obtained journal entry support for each FEMA disbursement from the Clerk Treasurer. We reviewed all documents provided and verified that no adjustments or transfers took place.

### Evaluation of Results:

Did you identify any noncompliance? - **No.** We did not identify any noncompliance.

If so, **you must:**

1. Determine and document the magnitude of the noncompliance on the program as a whole. **N/A**
2. Document the reason for the noncompliance. **N/A**
3. Consider whether additional testing is needed to provide reasonable assurance of detecting material noncompliance (e.g. is the risk of material noncompliance increased for the activities or costs that you did not test?). **N/A**
4. Reassess the final control risk. Generally, noncompliance is the result of a control deficiency; therefore, it is necessary to reconsider the effectiveness of the internal controls. **N/A**

### D.1.PR.G - Assistance to Firefighters Grant - 97.044

*Procedure Step:* C. Cash Management

*Prepared By:* AR, 11/30/2021

*Reviewed By:* AMS, 3/4/2022

## City of Clarkston

Purpose/Conclusion.

### **Purpose:**

To determine if internal controls provide reasonable assurance that cash management requirements are met and to test compliance with the requirements.

### **Conclusion:**

We determined internal controls **do** provide reasonable assurance that **Cash Management requirements** are met, and tested compliance with those requirements.

Based on our testing, we identified the following **control deficiencies**, **questioned costs**, and/or **noncompliance**, which we carried to the Major Federal Program worksheet [[Major Federal Program - Local teams](#)]:

- The City did not have written procedures to minimize the time between receipt and disbursement of funds and ensure procedures are up-to-date with federal requirements, as required.
- 1 of 12 invoices were reported as cash advances on 1 of 4 reimbursement requests. The City did not track interest earned from cash advances, as required. Since interest is not tracked, interest over the applicable threshold (\$500) may not be remitted to the grantor. We performed an internet search and noted that a reasonable Annual Percentage Yield on an interest bearing bank account is 0.50%. We determined that the estimated interest earned would have been \$3.86 at a typical interest bearing account with a 0.50% Annual Percentage Yield.
- Federal funds were not always disbursed timely (within 30 days). Specifically, we identified 1 of 12 invoices (8% error rate) from 1 of the 4 reimbursement requests were not paid timely. The City disbursed funds 125 days after funds were received by FEMA to pay LN Curtis & Sons for invoice #INV453712 in the amount of \$2,308.99.

**Update 3/4/22: The City informed us on 3/4/22 that it held the advance funds in its Twin River bank account that is not interest bearing, which we confirmed. Therefore, the advance did not earn interest as originally thought during the audit.**

Testing Strategy.

Perform the following steps:

1. Read and gather information.
2. Assess inherent risk (IR).

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3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

### Step 1: Read and Gather Information

**REQUIREMENT:** Entities must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. What constitutes minimized elapsed time for funds transfer will depend on what payment system/method a non-federal entity uses. Note, some awarding agencies specifically define or have expectations as to what constitutes minimized time.

**A. CASH ADVANCE** – Some programs allow the grantee to draw down funding before program expenses are incurred or paid. The requests the auditee submits to their grantor should identify it as an advance request. The entity must:

- (1) Create and maintain written policies that address how it will comply with the cash advance requirements. The auditor does not need to determine whether the written procedures are sufficient. Sufficiency is up to the interpretation of the grantee unless the awarding agency has provided guidance.
- (2) Disburses the grant funding as soon as possible after it is received;
- (3) Limits its cash advance requests to its immediate needs; and
- (4) Tracks interest earned from cash advances. They must remit interest earned over \$500.

**B. COST REIMBURSEMENT** – This occurs when the grantee incurs costs before the federal funds are received. Either situation could occur (even for the same program, transaction by transaction):

1. **Costs are incurred but not paid before federal funds are received** (like a cash advance): The entity is supposed to be using the reimbursement method but one or all of the costs in a request constitute an advance. For example, a grantee orders supplies but does not pay the vendor until after it submits a reimbursement request and receives the federal funds. The grantee is essentially receiving a cash advance. Thus, the grantee could potentially be maintaining an excess cash balance and earning interest.

The same could be applied if the entity collects an improper payment or later receives a rebate, discount, refund on returned items, etc. that they keep – as an advance – rather than returning the funds to the grantor if the cost had already been reimbursed.

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Use your auditor judgement and grantor requirements (if any) to determine if the delay in disbursement is reasonable. OSPI allows a delay of 3 business days after the funds are received.

2. Costs are incurred **and** paid before federal funds are received: This is a true cost reimbursement. The auditor should focus on the entity's controls that ensure they only request transactions that they have already paid and whether they are in compliance.

**C. PASS-THROUGH ENTITIES** – Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that the time elapsing between the transfer of federal funds to the subrecipient and their disbursement for program purposes is minimized as required by the applicable cash management requirements in the federal award to the recipient. *If the auditee passed on all or part of its federal award to a subrecipient, and that amount is material to the program, include this in the scope of the audit.*

### **Step 2: Assess Inherent Risk (IR)**

See steps to assess inherent risk in the Single Audit Planning Guide.

### **Step 3: Gain an Understanding of Internal Controls**

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

#### **Cash Advances**

- (1) The grantee established written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years.
- (1) Funds are disbursed as soon as possible after it is received
- (2) Limiting its cash advance requests to its immediate needs
- (3a) Tracking interest earned from cash advances and
- (3b) remitting any interest over the applicable threshold to the grantor.

#### **Cost Reimbursement (incurred but *not* paid before reimbursed)**

- (1) Funds are disbursed as soon as possible after it is received
- (2) Limiting its cash advance requests to its immediate needs
- (3a) Tracking interest earned from cash advances and
- (3b) remitting any interest over the applicable threshold to the grantor.



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### Cost Reimbursement (incurred *and* paid before reimbursed – true reimbursement)

(1) The grantee ensures it only requests costs that have been paid.

Example control: the person responsible for creating the reimbursement request includes only costs paid based upon their tracking spreadsheet, because they generate a report for only costs that have been paid, or generate detailed transaction reports and include items based on the date paid.

**\*Note:** If the auditee usually maintains a true cost reimbursement but has some transactions (occasionally or as special situations) that are incurred but not paid before reimbursement, document and test controls in both sections.

### Subrecipients (if direct and material)

The grantee implemented procedures to ensure that payments to its subrecipients minimized the time elapsing between transfer of federal funds and the disbursement of such funds for program purposes by the subrecipient.

### **Step 4: Assess Preliminary Control Risk (CR)**

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:

(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### **Step 5: Test Internal Controls**

If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.

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Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the “Major Federal Program” spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a “significant deficiency” or “material weakness.”

### Step 7: Assess the Risk of Material Non-Compliance (IR and CR)

The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

### Step 8: Test Compliance

#### A. Cash Advance Method

##### 1. Advance Requests:

Select cash draws occurring during the audit period and verify that the auditee:

- (a) minimized the time elapsing between the drawdown and disbursement of funds in accordance with program guidelines
- (b) limited the amount of its cash request to its immediate needs, and

## City of Clarkston

(c) accounted for and expended program income, rebates, refunds, and other receipts before requesting additional cash draws. Advances could also take the form of payments to the entity that exceed the grant-related costs incurred.

### 2. Interest:

2a. Determine whether the entity tracked or calculated interest on their advances.

2b. Amounts over the threshold (\$500) should be remitted to the grantor.

If the entity did not identify or track interest, use auditor judgement to evaluate if it could have likely exceeded the threshold (average interest rate, length of time funds were held, amount of funds, etc.). This also indicates a control deficiency.

## B. Cost Reimbursement Method

**NOTE: When appropriate and applicable, take credit here for any applicable testing done to substantiate the SEFA during single audit planning.**

### 1. Reimbursement:

If awards are funded on a true reimbursement basis (**costs are incurred and paid before federal funds are received**) select an appropriate number of reimbursement requests (use Policy 3240 in the policy tab) and trace expenditures to supporting documentation. Determine if the transactions of the request were paid by the auditee before the date they were submitted for reimbursement.

### 2. Pseudo-Advances:

a. If during your testing in #1 or control understanding you find the *reimbursement* program received advances of Federal funds (**costs are incurred but not paid before federal reimbursement**), select these advances and verify that the entity minimized the time elapsing between drawdown and disbursement. For schools, the delay is limited to three days.

b. Determine if interest was earned on Federal cash draws. The entity should track or calculate it. (Control deficiency if they do nothing.)

c. If interest earned was over \$500 (or \$100 for pre-UG awards), determine if the excess was returned to the appropriate agency.

## C. Subrecipients (*if direct and material*)

1. Select a representative sample of subrecipient payments and ascertain if the pass-through entity implemented procedures to ensure that the time elapsing between the transfer of Federal funds to the subrecipient and the disbursement of such funds for program purposes by the subrecipient was minimized.

### **Evaluate the results.**

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Guidance/Criteria:

[Compliance Supplement for 2020 Part 3 & 6 Excerpt](#) - an excerpt from Part 3 (Compliance Requirements) and Part 6 (Internal Controls) for the 2020 Compliance Supplement

### INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

### SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

**a. For populations of 365 or less, auditors may use the following table:**

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done:

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## **Inherent Risk of Noncompliance**

In accordance with AU-C sec. 935, we have considered the following inherent risk factors that apply to this compliance requirement:

- Is the compliance requirement new to the agency or has the requirement changed recently? - **NO**
- Is the compliance requirement considered an area of higher risk in the Compliance Supplement or by oversight agencies? **NO**
- Does the compliance requirement involve a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program? **NO**
- Is there a lack of oversight by the grantor or pass-through agency? **NO**
- Is the compliance requirement relatively complex or are related activities difficult to audit? **NO**
- Are multiple locations or departments responsible for administering the requirement? **NO**
- When assessing the risk of Type A and Type B programs during single audit planning (refer to the risk assessment spreadsheet), did you find that this compliance requirement is one that is susceptible to fraud, theft of assets, or fraudulent reporting of financial or programmatic data to the grantor or public? **NO**

Based on these results, we assessed the inherent risk of noncompliance at **LOW**.

## **Key Personnel:**

Michelle Courtney, Administrative Assistant  
Darren White, Fire Chief  
Steve Austin, City Treasurer

## **Background Information:**

The City of Clarkston had three (3) active awards under the CFDA 97.044 Assistance to Firefighters Grant (AFG) during FY 2020. These are EMW-2018-01923, EMW-2019-01017, and EMW-2020-FG-00798. Per our review of the NOFOs, we identified the following compliance requirements for cash management for EMW-2018, EMW-2019, and EMW-2020:

- Recipients should draw down funds based upon immediate disbursement requirements, however, FEMA strongly encourages recipients to draw down funds as close to disbursement or expenditure as possible to avoid accruing interest.
- Recipients shall be paid in advance, provided they maintain, or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and its disbursement by the recipient (not to exceed 30 days), and the financial management systems that meet the standards for fund control and accountability as established in 2 C.F.R. Part 200.
- Recipients may only submit reimbursement payment requests up to 90 days after the expiration of the period of performance.

## **Understanding of Internal Controls**

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for

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additional documentation of our overall COSO evaluation.

### **Cash Advances**

(1) The grantee established written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years.

(1) Funds are disbursed as soon as possible after it is received

(2) Limiting its cash advance requests to its immediate needs

(3a) Tracking interest earned from cash advances and

(3b) remitting any interest over the applicable threshold to the grantor.

**Applicable.** The Fire Department used both the cash advance and pseudo-cost reimbursement methods (costs are incurred but may not be paid prior to requesting reimbursement).

### **Cost Reimbursement (incurred but *not* paid before reimbursed)**

(1) Funds are disbursed as soon as possible after it is received

(2) Limiting its cash advance requests to its immediate needs

(3a) Tracking interest earned from cash advances and

(3b) remitting any interest over the applicable threshold to the grantor.

**Applicable.** The Fire Department used both the cash advance and pseudo-cost reimbursement methods (costs are incurred but may not be paid prior to requesting reimbursement).

### **Cost Reimbursement (incurred *and* paid before reimbursed – true reimbursement)**

(1) The grantee ensures it only requests costs that have been paid.

**Not Applicable.** The Fire Department used both the cash advance and pseudo-cost reimbursement methods (costs are incurred but may not be paid prior to requesting reimbursement).

### **Subrecipients (if direct and material)**

The grantee implemented procedures to ensure that payments to its subrecipients minimized the time elapsing between transfer of federal funds and the disbursement of such funds for program purposes by the subrecipient.

**Not Applicable.** The City did not pass AFG grant funds to subrecipients.

We spoke with the Fire Chief, Darren White, Administrative Assistant, Michelle Courtney, and Clerk Treasurer, Steve Austin, to gain an understanding of the City's process to request payment for grant expenditures. First, the Fire Chief initiates all purchases on account with the vendor. The vendor sends invoices or quotes to the Fire Department. Each invoice or quote is reviewed by the Fire Chief and are collected within a folder in the Fire Department's office. The Fire Chief indicates on each invoice or quote to which grant the expenditure will be charged. The Administrative Assistant keeps a physical file for each grant award to store each applicable invoice or quote. We gained an

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understanding of this process here [[A-B-H Activities Allowed/Allowable Cost/Period of Performance](#)].

The Administrative Assistant is responsible for submitting the cash advance and/or reimbursement request via the FEMA.GO website. The Administrative Assistant prepares the cash advance and/or reimbursement request by reviewing the grant award obligating documents and reporting the dollar amounts listed on the approved invoices and quotes to ensure only allowable costs are requested for reimbursement, that no more than the maximum award amount is requested for payment, and requests are made only for the City's immediate needs (**Key Control #1**). When she submits the request, the Administrative Assistant attaches the invoices and quotes to support the reimbursement request. Once submitted, FEMA reviews the reimbursement request and responds with an approval or denial. FEMA also sends the City an email notification to confirm the requested funds will be remitted to the City's bank account within 3-5 business days.

The Administrative Assistant forwards the email notification, invoices and quotes to the Clerk Treasurer, to notify him of the upcoming remittance. The Clerk Treasurer noted that invoices will be paid only after payment is guaranteed by FEMA with this confirmation email. The Clerk Treasurer enters the invoices into the general ledger, checks are processed and dated within the next two-week pay period to ensure funds are disbursed as soon as possible after it is received (**Key Control #2**). The Clerk Treasurer will take the batch of checks for the last two-week period to the City Council for approval at their next meeting (the second and fourth Monday of each month). After the City Council gives their approval, the Clerk Treasurer sends checks to vendors within the next 1-2 days after the City Council meeting.

The Clerk Treasurer and the Fire Chief coordinate closely with the vendor to ensure that invoices are paid as soon as possible after federal funds are received; consequently, the City does not track interest earned from cash advances because the amount of time that transpires between receiving federal funds and disbursing federal funds is typically nominal. The City also does not have written procedures to minimize the time between receipt and disbursement of funds or a process in place to ensure procedures are up-to-date with federal requirements in subsequent years. Despite that earned interest is typically nominal, the program requires the City to have written procedures and internal controls in place to ensure cash advances are disbursed timely, earned interest is tracked, and earned interest exceeding the \$500 threshold is remitted to the granting agency. We will note this as a control weakness.

### **Key Controls:**

Based on our understanding, we identified the following key controls over cash management:

1. **Key Control #1:** The Administrative Assistant prepares the cash advance and/or reimbursement request by reviewing the grant award obligating documents and reporting the dollar amounts listed on the approved invoices and quotes to ensure only allowable costs are requested for reimbursement, that no more than the maximum award amount is requested for payment, and requests are made only for the City's immediate needs.
2. **Key Control #2:** The Clerk Treasurer enters the invoices into the general ledger, checks are processed and dated within the next two-week pay period to ensure funds are disbursed as soon as possible after it is received.

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We did not identify key control(s) to ensure the following requirements are met:

- Written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years.
- Tracking interest earned from cash advances.
- Remitting any interest over the applicable threshold to the grantor.

### Evaluation of Results:

Did you identify any control deficiencies? - **Yes.**

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole.

We used the decision matrix below and determined the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance on the program as a whole is less than material.

Decision Matrix for Single Audit Internal Control Deficiencies		
Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	Material
Remote	Control deficiency  <b>(Control risk is LOW)</b>	Control deficiency  <b>(Control risk is LOW)</b>
More than Remote (at least reasonably possible)	<b>If the deficiency does not meet the criteria below for a significant deficiency:</b>  Control deficiency  <b>(Control risk is LOW)</b>	<b>Assess control risk as HIGH and report a finding for a Material Weakness if the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance of 10% or more of total grant expenditures (quantitative) OR</b>



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	<p><b>Assess control risk as HIGH and report a finding for a Significant Deficiency if:</b></p> <p>(1) the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance between 5%-10% of total grant expenditures (quantitative) OR the non-monetary activity (quantitative) (refer to Note 1 below), and</p> <p>(2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken (qualitative). (Refer to Note 2 below.)</p>	<p>the non-monetary activity (quantitative) (refer to Note 1 below)</p>
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### 2. Document the rationale for a LOW or HIGH risk assessment.

We assess the control risk as HIGH. The City receives cash advances from FEMA but it did not establish effective controls for cash advances. Specifically, the City does not have written procedures to minimize the time between receipt and disbursement of funds and ensure procedures are up-to-date with federal requirements, as required. In addition, the City does not track interest earned from cash advances, as required. Since interest is not tracked, interest over the applicable threshold (\$500) may not be remitted to the grantor.

Update 3/4/22: The City also did not maintain advance payments of federal awards in interest-bearing accounts, as required by Uniform Guidance (2 CFR 200.305).

### **Preliminary Control Risk Assessment**

Based on our understanding of key internal controls, we assess preliminary control risk at **HIGH**.

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## **Internal Control Testing**

**Key Control #1: The Administrative Assistant prepares the cash advance and/or reimbursement request by reviewing the grant award obligating documents and reporting the dollar amounts listed on the approved invoices and quotes to ensure only allowable costs are requested for reimbursement, that no more than the maximum award amount is requested for payment, and requests are made only for the City's immediate needs.**

Dual purpose testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We tested the four cash advance/reimbursement requests submitted during the period. We determined the sum of the requests agreed to the expenditure amount reported on the SEFA (\$369,622). Michelle also provided us with the 12 invoices and grant award obligating documents she used to support each request. Per our review of the underlying documents, the City requested cash advances/reimbursements for allowable costs and did not exceed the maximum award amounts, and requests were made for immediate needs. We determined this key control is in place and operating effectively. See dual purpose testing here [[C - Cash Management Testing](#)].

**Key Control #2: The Clerk Treasurer enters the invoices into the general ledger, checks are processed and dated within the next two-week pay period to ensure funds are disbursed as soon as possible after it is received.**

- Dual purpose testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We tested the 12 invoices associated with the four cash advance/reimbursement requests submitted during the period. We determined the sum of invoices agreed to the expenditure amount reported on the SEFA (\$369,622). We obtained and compared the FEMA remittance date to the check date associated with each invoice and reimbursement request and determined federal funds were disbursed timely (within 30 days) for 11 out of 12 payments. We identified 1 of 12 invoices from 1 of the 4 reimbursement requests were not paid timely. The City disbursed funds 125 days after funds were received from FEMA to pay LN Curtis & Sons for invoice #INV453712 in the amount of \$2,308.99. This is a control failure rate of 8%.

The City requested payment for this amount based on the vendors' price quotations. The vendor delayed sending the invoice to the City until well after the goods were delivered. Although the City received the remittance from FEMA, the City did not disburse payment to the vendor until the invoice was received. Consequently, the City held on to the funds for longer than 30 days. Per inquiry with Michelle, the City did not document its attempts to receive the invoice from the vendor or reach out to FEMA to notify them of the delayed disbursement.

We determined this key control is not operating effectively to ensure funds are disbursed as soon as possible after it is received. See dual purpose testing at [[C - Cash Management Testing](#)].

As noted in our understanding of internal controls, we did not identify key control(s) to ensure the following requirements are met:

- Written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years.
- Tracking interest earned from cash advances.

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- Remitting any interest over the applicable threshold to the grantor.

### Evaluation of Results:

Did you identify any control deficiencies? - **Yes.**

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole.

We used the decision matrix below and determined the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance on the program as a whole is less than material. The control failure rate is 8% for the 1 of 12 invoices not paid timely. We tested all invoices, so there is no risk of additional errors. We consider the control deficiencies identified to be a significant deficiency.

Decision Matrix for Single Audit Internal Control Deficiencies		
Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	Material
Remote	Control deficiency  (Control risk is LOW)	Control deficiency  (Control risk is LOW)
More than Remote (at least reasonably possible)	If the deficiency does not meet the criteria below for a significant deficiency:  Control deficiency  (Control risk is LOW)	Assess control risk as HIGH and report a finding for a Material Weakness if the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance of 10% or more of total grant expenditures (quantitative) OR

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	<p><b>Assess control risk as HIGH and report a finding for a Significant Deficiency if:</b></p> <p>(1) the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance between 5%-10% of total grant expenditures (quantitative) OR the non-monetary activity (quantitative) (refer to Note 1 below), and</p> <p>(2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken (qualitative). (Refer to Note 2 below.)</p>	<p>the non-monetary activity (quantitative) (refer to Note 1 below)</p>
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### 2. Document the rationale for a LOW or HIGH risk assessment.

We assess the control risk as HIGH.

- The City did not have written procedures to minimize the time between receipt and disbursement of funds and ensure procedures are up-to-date with federal requirements, as required.
- 1 of 12 invoices were reported as cash advances on 1 of 4 reimbursement requests. The City did not track interest earned from cash advances, as required. Since interest is not tracked, interest over the applicable threshold (\$500) may not be remitted to the grantor. We performed an internet search and noted that a reasonable Annual Percentage Yield on an interest bearing bank account is 0.50%. We determined that the estimated interest earned would have been \$3.86 at a typical interest bearing account with a 0.50% Annual Percentage Yield.

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- Federal funds were not always disbursed timely (within 30 days). Specifically, we identified 1 of 12 invoices from 1 of the 4 reimbursement requests were not paid timely. The City disbursed funds 125 days after funds were received from FEMA to pay LN Curtis & Sons for invoice #INV453712 in the amount of \$2,308.99.

**Update 3/4/22: The City informed us on 3/4/22 that it held the advance funds in its Twin River bank account that is not interest bearing, which we confirmed. Therefore, the advance did not earn interest as originally thought during the audit.**

### **Final Control Risk Assessment**

We assess final control risk at **HIGH**.

### **Risk of Material Noncompliance**

We assess the risk of material noncompliance at **HIGH**.

### **Compliance Testing**

#### **A. Cash Advance Method**

##### **1. Advance Requests:**

Select cash draws occurring during the audit period and verify that the auditee:

- (a) minimized the time elapsing between the drawdown and disbursement of funds in accordance with program guidelines
- (b) limited the amount of its cash request to its immediate needs, and
- (c) accounted for and expended program income, rebates, refunds, and other receipts before requesting additional cash draws. Advances could also take the form of payments to the entity that exceed the grant-related costs incurred.

##### **2. Interest:**

2a. Determine whether the entity tracked or calculated interest on their advances.

2b. Amounts over the threshold (\$500) should be remitted to the grantor. If the entity did not identify or track interest, use auditor judgement to evaluate if it could have likely exceeded the threshold (average interest rate, length of time funds were held, amount of funds, etc.). This also indicates a control deficiency.

The City's reimbursement requests are a combination of cash advances and costs incurred but not paid. We addressed cash advance compliance requirements in step B. Cost Reimbursement Method - 2a., 2b., and 2c. below.

#### **B. Cost Reimbursement Method**

##### **1. Reimbursement:**

If awards are funded on a true reimbursement basis (**costs are incurred and paid before federal funds are received**) select an appropriate number of reimbursement requests (use Policy 3240 in the policy tab) and trace expenditures to supporting documentation. Determine if the

## City of Clarkston

transactions of the request were paid by the auditee before the date they were submitted for reimbursement.

**Not applicable.** Costs are incurred but not paid before federal funds are received.

### 2. Pseudo-Advances:

a. If during your testing in #1 or control understanding you find the *reimbursement* program received advances of Federal funds (**costs are incurred but not paid before federal reimbursement**), select these advances and verify that the entity minimized the time elapsing between drawdown and disbursement. For schools, the delay is limited to three days.

To determine if the City is in compliance with cash management requirements, we performed dual purpose testing in conjunction with our internal control testing. We tested the four cash advance/reimbursement requests submitted during the period. We determined the sum of the requests agreed to the expenditure amount reported on the SEFA (\$369,622). Michelle also provided us with the 12 invoices and grant award obligating documents she used to support each request. Per our review of the underlying documents, the City requested cash advances/reimbursements for allowable costs and did not exceed the maximum award amounts, and requests were made for immediate needs.

- We also tested the 12 invoices associated with the four cash advance/reimbursement requests submitted during the period. We determined the sum of invoices agreed to the expenditure amount reported on the SEFA (\$369,622). We obtained and compared the FEMA remittance date to the check date associated with each invoice and reimbursement request and determined federal funds were not always disbursed timely (within 30 days). Specifically, we identified 1 of 12 invoices from 1 of the 4 reimbursement requests were not paid timely. The City disbursed funds 125 days after funds were received by FEMA to pay LN Curtis & Sons for invoice #INV453712 in the amount of \$2,308.99.

The City requested payment for this amount based on the vendors' price quotations. The vendor delayed sending the invoice to the City until well after the goods were delivered. Although the City received the remittance from FEMA, the City did not disburse payment to the vendor until the invoice was received. Consequently, the City held on to the funds for longer than 30 days. Per inquiry with Michelle, the City did not document its attempts to receive the invoice from the vendor or reach out to FEMA to notify them of the delayed disbursement.

See dual purpose testing at [C - Cash Management Testing].

**Update 3/4/22: The City informed us on 3/4/22 that it held the advance funds in its Twin River bank account that is not interest bearing, which we confirmed. Therefore, the advance did not earn interest as originally thought during the audit.**

b. Determine if interest was earned on Federal cash draws. The entity should track or calculate it. (Control deficiency if they do nothing.)

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From the population noted in the previous step, 1 of 12 invoices were reported as cash advances on 1 of 4 reimbursement requests. The City did not track or calculate interest on their advances. In our understanding, we noted that the City did not have controls in place to ensure that interest is calculated on funds that are held for a period of time that exceeds the usual disbursement process. The Clerk Treasurer was unaware of this requirement as the City has not encountered a situation before where federal funds are held longer than the usual disbursement process. The Clerk Treasurer was unaware of this specific requirement and deemed that the amount of potential interest earned would be nominal. We determined that the lack of this monitoring is caused by a deficiency in controls. We estimated the potential interest earned in "c" below.

- c. If interest earned was over \$500 (or \$100 for pre-UG awards), determine if the excess was returned to the appropriate agency.

Since the City did not identify or track interest, we used auditor judgement to evaluate if it could have likely exceeded the \$500 threshold (average interest rate, length of time funds were held, amount of funds, etc.). Our testing is documented here [\[C - Cash Management Testing\]](#). Per 2 CFR 200.305, a non-Federal entity must maintain advance payments of Federal awards in interest bearing accounts unless the following apply:

- (i) The non-Federal entity receives less than \$250,000 in Federal awards per year
- (ii) The best reasonable available interest-bearing account would not be expected to earn interest in excess of \$500 per year on Federal cash balances.
- (iii) The depository would require an average or minimum balance so high that it would not be feasible within the Federal and non-Federal cash resources.
- (iv) A foreign government or banking system prohibits or precludes interest-bearing accounts

We determined that item (ii) would be applicable to the City. We performed an internet search and noted that reasonably available interest-bearing accounts have an estimated Annual Percentage Yield of about 0.50%. We used this rate in our testing and determined that at this rate, the City would have earned about \$3.86 of interest for the one invoice.

The City did not track or calculate interest on their advances. In our understanding, we noted that the City did not have controls in place to ensure that interest is calculated on funds that are held for a period of time that exceeds the usual disbursement process. The Clerk Treasurer was unaware of this requirement as the City has not encountered a situation before where federal funds are held longer than the usual disbursement process. The Clerk Treasurer was unaware of this specific requirement and deemed that the amount of potential interest earned would be nominal. We determined that the lack of this monitoring is caused by a deficiency in controls.

**Update 3/4/22: The City informed us on 3/4/22 that it held the advance funds in its Twin River bank account that is not interest bearing, which we confirmed. Therefore, the advance did not earn interest as originally thought during the audit.**

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### C. Subrecipients (*if direct and material*)

1. Select a representative sample of subrecipient payments and ascertain if the pass-through entity implemented procedures to ensure that the time elapsing between the transfer of Federal funds to the subrecipient and the disbursement of such funds for program purposes by the subrecipient was minimized.

**Not applicable.** Per our conversations with the Fire Chief, Administrative Assistant, and the Clerk Treasurer, and our evaluation of the SEFA, the City did not pass Assistance to Firefighters Grant to subrecipients.

### Evaluation of Results:

Did you identify any noncompliance? **Yes.**

If so, **you must:**

1. Determine and document the magnitude of the noncompliance on the program as a whole.

**We used the decision matrix below and determined the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance on the program as a whole is less than material.**

Decision Matrix for Single Audit Internal Control Deficiencies		
Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	Material
Remote	Control deficiency  (Control risk is LOW)	Control deficiency  (Control risk is LOW)
More than Remote (at least reasonably possible)	If the deficiency does not meet the criteria below for a significant deficiency:  Control deficiency  (Control risk is LOW)	Assess control risk as HIGH and report a finding for a Material Weakness if the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance of 10% or more of total grant expenditures (quantitative) OR



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	<p><b>Assess control risk as HIGH and report a finding for a Significant Deficiency if:</b></p> <p>(1) the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance between 5%-10% of total grant expenditures (quantitative) OR the non-monetary activity (quantitative) (refer to Note 1 below), and</p> <p>(2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken (qualitative). (Refer to Note 2 below.)</p>	<p>the non-monetary activity (quantitative) (refer to Note 1 below)</p>
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### 2. Document the reason for the noncompliance.

- The City did not track or calculate interest on their advances. In our understanding, we noted that the City did not have controls in place to ensure that interest is calculated on funds that are held for a period of time that exceeds the usual disbursement process. The Clerk Treasurer was unaware of this requirement as the City has not encountered a situation before where federal funds are held longer than the usual disbursement process. The Clerk Treasurer was unaware of this specific requirement and deemed that the amount of potential interest earned would be nominal.
- The City requested payment for this amount based on the vendors' price quotations. The vendor delayed sending the invoice to the City until well after the goods were delivered. Although the City received the remittance from FEMA, the City did not disburse payment to the vendor until the invoice was received. Consequently, the City held on to the funds for longer than 30 days. Per inquiry with Michelle, the City did not document its attempts to receive the invoice from the vendor or reach out to FEMA to notify them of the delayed disbursement.

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3. Consider whether additional testing is needed to provide reasonable assurance of detecting material noncompliance (e.g. is the risk of material noncompliance increased for the activities or costs that you did not test?).

No additional testing is needed to provide reasonable assurance of detecting material noncompliance. We reviewed all expenditures and underlying invoices and cash advances/reimbursement requests associated with the program.

4. Reassess the final control risk. Generally, noncompliance is the result of a control deficiency; therefore, it is necessary to reconsider the effectiveness of the internal controls.

No reassessment of controls is necessary - we assessed our final control risk as HIGH.

- The City did not have written procedures to minimize the time between receipt and disbursement of funds and ensure procedures are up-to-date with federal requirements, as required.
- 1 of 12 invoices were reported as cash advances on 1 of 4 reimbursement requests. The City did not track interest earned from cash advances, as required. Since interest is not tracked, interest over the applicable threshold (\$500) may not be remitted to the grantor. We performed an internet search and noted that a reasonable Annual Percentage Yield on an interest bearing bank account is 0.50%. We determined that the estimated interest earned would have been \$3.86 at a typical interest bearing account with a 0.50% Annual Percentage Yield.
- Federal funds were not always disbursed timely (within 30 days). Specifically, we identified 1 of 12 invoices (8% error rate) from 1 of the 4 reimbursement requests were not paid timely. The City disbursed funds 125 days after funds were received by FEMA to pay LN Curtis & Sons for invoice #INV453712 in the amount of \$2,308.99.

**Update 3/4/22: The City informed us on 3/4/22 that it held the advance funds in its Twin River bank account that is not interest bearing, which we confirmed. Therefore, the advance did not earn interest as originally thought during the audit.**

We will bring these issues forward to the Major Federal Programs spreadsheet [[Major Federal Program - Local teams](#)] and issue a recommendation here [[The City had inadequate internal controls for ensuring compliance with federal procurement, suspension and debarment, and cash management requirements](#)].

### D.1.PR.G - Assistance to Firefighters Grant - 97.044

*Procedure Step:* F. Equipment/Real Property

*Prepared By:* AR, 11/17/2021

*Reviewed By:* HVB, 2/16/2022

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Purpose/Conclusion:

**Purpose:**

To determine if the entity has adequate internal controls over and is in compliance with the requirements for equipment and real property management.

**Conclusion:**

We determined internal controls **do** provide reasonable assurance that **Equipment** requirements are met, and tested compliance with those requirements.

Based on our testing, we identified the following **control deficiencies**, **questioned costs**, and/or **noncompliance**, which we carried to the Major Federal Program worksheet [[Major Federal Program - Local teams](#)]:

- **NONE**

Testing Strategy:

Perform the following steps:

1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

**Step 1: Read and Gather Information**

**\*Reminder:** We test more than just the acquisition of equipment during the audit period. We should also test:

- The inventory, maintenance, and safeguarding of equipment purchased under the program in the past – inventory conducted

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during the audit period or the year before if not audited then.

- Disposal of equipment purchased under the program in the past – the disposal occurred during the audit period and was valued more than \$5,000.

See examples in the policy tab for additional information.

### A. EQUIPMENT

#### Equipment Definition:

- Tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the auditee for financial statement purposes or \$5,000.

#### Objective: To determine whether the auditee:

- Maintains proper equipment records (see below);
- Adequately safeguards and maintains the equipment;
- Completes a physical inventory of equipment once every two years;
- Requests and follows federal awarding agency disposition instructions (for equipment and real property with a current per-unit fair market value of \$5,000 or more) and compensates the federal awarding agency for its portion of property sold or converted to non-federal use.
  - **Note:** *Intangible property that is acquired under a federal award, rather than developed or produced under the award, is subject to the requirements of 2 CFR section 200.313(e) regarding disposition (2 CFR section 200.315(a)).*

#### Property Records: These must include:

1. a description of the property
2. a serial number or other identification number
3. the source of funding for the property (including the federal award identification number)
4. who holds title
5. the acquisition date
6. cost of the property
7. percentage of federal participation in the project costs for the federal award under which the property was acquired
8. the location
9. use and condition of the property

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10. any ultimate disposal data including the date of disposal and sales price of the property  
(2 CFR section 200.313(d)(1))

Inventory: A physical inventory of the property must be taken *and reconciled* with the property records once every two years.

Safeguard: Entities must establish controls to ensure federal equipment is safeguarded against loss, damage, or theft of the property. Any loss, damage, or theft must be investigated

Maintenance: Entities must establish controls to ensure federal equipment is adequately maintained to keep the property in good condition.

Disposition: When original or replacement equipment acquired under a federal award is no longer needed for a federal program, the entity must request disposition instructions from the federal awarding agency if required by the terms and conditions of the award when the current per-unit fair market value of the equipment is in excess of \$5,000. See note above regarding intangible property. The federal awarding agency is entitled to the federal interest in the equipment, which is the amount calculated by multiplying the current market value or sales proceeds by the federal agency's participation in the total project costs.

### **B. REAL PROPERTY**

Real Property Definition: Federal real property is land, buildings and land improvement that is:

- acquired with federal funds (*Pre-UG*)
- acquired or improved by the grantee with federal funds (*UG*)

Objective: To determine whether the auditee:

Followed the proper disposition requirements (see compliance testing) and compensated the federal awarding agency for its portion of any property sold or converted to non-federal use.

### **Step 2: Assess Inherent Risk (IR)**

See steps to assess inherent risk in the Single Audit Planning Guide.

### **Step 3: Gain an Understanding of Internal Controls**

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

- (a) **Property Records**: proper records are created with all required components and retained for equipment purchased with federal funds (equipment);
- (b) **Inventory**: a physical inventory of federal equipment is conducted at least once every two years (equipment);

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- (c) **Safeguarded:** there are safeguards to prevent loss, damage, or theft of the property (equipment)
- (d) **Maintenance:** equipment is maintained in good condition (maintenance procedures) (equipment)
- (e) **Disposal:** disposal of equipment and/or real property meets federal requirements (as applicable for equipment and real property) and the awarding agency is compensated for its share when sold or converted to non-federal use.

\*Note: You can combine these elements together for a control that addresses more than one.

### Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:

- (1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
- (2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

**Deficiencies Identified:** Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### Step 5: Test Internal Controls

If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

**Deficiencies Identified:** Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

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## Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

## Step 7: Assess the Risk of Material Non-Compliance (IR and CR)

The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

## Step 8: Test Compliance

### A. EQUIPMENT

Identify equipment that was:

- acquired during the audit for program
- *and* acquired in the previous year for program (even if it was a different grant agreement) if we did not audit the program last year.

1. [Property Records](#): Trace selected equipment to the property records to determine if they contain all required information (including disposal info if applicable). While it is a best practice to use one document, it is allowable to record the required information among multiple documents so long as they are formal property records of the entity.

2.a. [Inventory](#): Determine if a physical inventory of federal equipment (acquired from your audit program) was conducted at least once within the last two years. If the inventory was taken last year but unaudited, it should be included for testing now.

2.b. Determine whether any differences between the physical inventory and equipment records were resolved.

3. [Safeguards & Maintenance](#): Determine if the equipment is being safeguarded and adequately maintained.

4. [Disposals](#): Applicable if *any* equipment was disposed of during the audit period or prior year (if unaudited) and the per-unit fair market value –

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*not book value* – was greater than \$5,000 at the time of disposal. Select those with ending value over \$5,000 and determine if the federal share was reimbursed to the grantor.

### B. REAL PROPERTY

Identify applicable real property that was:

- acquired (or improved under UG) during the audit for the *program* (not contract) you are auditing.
- *and* acquired (or improved under UG) in the previous year for the *program* (even if it was a different grant agreement) if we did not audit the program last year.

#### 1. Disposals:

Applicable if *any* real property from the program was disposed of during the audit period or prior year (if unaudited) and the per-unit fair market value – *not book value* – was greater than \$5,000 at the time of disposal. Select those valued over \$5,000, verify the auditee followed the instructions of the awarding agency and determine if the federal share was reimbursed to the grantor.

### Evaluate the results.

Guidance/Criteria:
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[Compliance Supplement for 2020 Part 3 & 6 Excerpt](#) - an excerpt from Part 3 (Compliance Requirements) and Part 6 (Internal Controls) for the 2020 Compliance Supplement

### **INTERNAL CONTROL UNDERSTANDING**

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Equipment guidelines are included under [2 CFR 200.313](#)

Intangible property is included under [2 CFR 200.315](#)

Real property is included under [2 CFR 200.311](#)

### **COMPLIANCE REQUIREMENTS AND THE TIMING OF OUR AUDIT**



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We audit programs when they are selected as major programs from the Schedule of Expenditures of Federal Awards. For that to occur, the grant/loan contract must have had expenses during the audit period. However, when determining which parts of the equipment and real property requirements apply during the audit period, we should focus on the federal program and not just the current grant/loan contract.

Example: We selected 20.507, Federal Transit Formula Grants, as a major program for 2018. Grant A was associated with the 2018 expenses and, during 2018, the entity used Grant A funds to purchase three new buses and a parking lot. Since there were only acquisitions during 2018, do we need to audit to see if a physical inventory was performed for federal equipment (once every two years)? Do we need to audit whether there were any dispositions of equipment or real property during 2018?

Yes! We must audit to determine if an inventory was performed and test any depositions for the federal program, CFDA 20.507, not just those related to Grant A. We must also document and select key controls for these requirements.

There may be equipment or real property obtained or improved with funds from CFDA 20.507 in the past that have continuing compliance requirements related to inventory, maintenance, security and disposition. For example, assume we have selected CFDA 20.507 as our major program and there are older assets previously acquired or improved with 20.207 funding, even though they have no current activity on the SEFA. In this example, the entity used 20.507 grant funds, three years ago to buy two vans using Grant B. During our testing of 2018, we will evaluate whether an inventory was done for all assets obtained/improved using CFDA 20.507, and whether any assets obtained/improved using CFDA 20.507 were disposed of. (Entities are required to have property records that show the funding sources.)

### **EQUIPMENT – ADDITIONAL INFORMATION**

"Equipment" means tangible, nonexpendable, personal property having a useful life of more than one year and a per-unit acquisition cost which equals the lesser of \$5,000 or the capitalization level established by the grantee. Equipment can also include intangible property (new under UG), if it was acquired under a federal award, rather than developed or produced (e.g. property having no physical existence, such as trademarks, copyrights, patents and patent applications and property, such as loans, notes and other debt instruments, lease agreements, stock and other instruments of property ownership (whether the property is tangible or intangible).

Other personal property that does not meet this definition is a supply, and would not be considered federal equipment subject to this requirement. **Computers**, although we may typically think of them as equipment, would be considered supplies for the federal requirements if they do not meet the federal definition of equipment (i.e. capitalization thresholds).

The requirements for property records *have not substantively changed* in the Uniform Guidance from the previous Circular A-102 Common Rule. The requirements for property records are meant to ensure that the non-Federal entity maintains an equipment inventory system that demonstrates the Federal entity has an effective system of controls to account for and track equipment that has been acquired with Federal funds. *Grantees are not expected to change their equipment inventory systems or the data elements contained in those systems, if they are in*

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*compliance with the current requirements in Circular A-110/A-102.*

**\*The Uniform Guidance added these equipment requirements that were expectations under Circular A-102 but are now specifically stated:**

A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated (2 CFR section 200.313(d)(3)). We must add this to our control understanding and key controls. The key control may be a combination of activities, such as the equipment is kept in a secured location (locked parking lot with limited access, safe or storage room), personnel must check the equipment out and in or are assigned equipment as supported by adequate documentation, there is procedure for reporting and investigating loss, damage or theft, etc.

Adequate maintenance procedures must be developed to keep the property in good condition (2 CFR section 200.313(d)(4)). We must add this to our control understanding and key controls. The key control may be they have a process to request repairs or other maintenance to assets, have a maintenance schedule, or have established maintenance contractors who perform scheduled services, etc.

Record of Work Done:

### **Inherent Risk of Noncompliance**

In accordance with AU-C sec. 935, we have considered the following inherent risk factors that apply to this compliance requirement:

- Is the compliance requirement new to the agency or has the requirement changed recently? - **NO**
- Is the compliance requirement considered an area of higher risk in the Compliance Supplement or by oversight agencies? **NO**
- Does the compliance requirement involve a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program? **NO**
- Is there a lack of oversight by the grantor or pass-through agency? **NO**
- Is the compliance requirement relatively complex or are related activities difficult to audit? **NO**
- Are multiple locations or departments responsible for administering the requirement? **NO**
- When assessing the risk of Type A and Type B programs during single audit planning (refer to the risk assessment spreadsheet), did you find that this compliance requirement is one that is susceptible to fraud, theft of assets, or fraudulent reporting of financial or programmatic data to the grantor or public? **NO**

Based on these results, we assessed the inherent risk of noncompliance at **LOW**.

### **Key Personnel**

Darren White, Fire Chief

Michelle Courtney, Administrative Assistant

Steve Austin, Clerk Treasurer

# City of Clarkston

## **Background Information:**

The City of Clarkston had three (3) active awards under the CFDA 97.044 Assistance to Firefighters Grant (AFG) during FY 2020. These are EMW-2018-01923, EMW-2019-01017, and EMW-2020-FG-00798. Per our review of the NOFOs, we identified the following compliance requirements for equipment/real property for EMW-2018, EMW-2019, and EMW-2020:

**Overview:** All awards are for equipment for effective response, firefighting, rescue, and emergency medical operations to enhance public safety. EMS-2020 puts a funding priority on PPE to assist the emergency responses to COVID-19.

**Maintenance and Sustainment:** Maintenance agreements, service contracts, or extended warranty for systems or equipment must have a period of coverage that does not extend beyond the period of performance for the grant with which the agreement, warranty or contract is purchased. The extended warranty purchased incidental to the original purchase may exceed the period of performance as long as the coverage purchased is consistent with that which is typically provided for these types of agreements, warranties, or contracts.

**Disposition of Grant Funded Equipment:** Recipient must use, manage, and dispose of AFG-funded equipment in accordance with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200.313. When the recipient no longer needs the original or replacement equipment acquired under an AFG award, the recipient must request disposition instructions from FEMA.

The City's fixed asset threshold is equal to the federal unit price threshold of \$5,000. There were two SCBA custom unit MSA G1 Air pack purchases that exceeded the City's and federal unit price threshold of \$5,000. These units were purchased in the 2020 audit period as evidenced by their invoice dates. Therefore, our understanding and testing will be conducted for only these two pieces of equipment.

## **Understanding of Internal Controls**

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

## **Overview**

For the audit period, the City used federal funds to purchase SCBA equipment. The Fire Chief is responsible for purchasing the assets.

The City has an established policy for fixed asset purchases to ensure property records are maintained, inventory is performed, equipment is safeguarded and adequately maintained. See policy here [\[PBC: Fixed Asset Procedures\]](#) . Upon purchase of a new asset, the Fire Chief must submit to the Finance Department the supporting invoice for the purchase.

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**(a) Property Records:** proper records are created with all required components and retained for equipment purchased with federal funds (equipment);

Upon delivery of the goods, the Fire Chief conducts an initial inspection of the goods to ensure that items are in good condition and match the expected order. Then the Administrative Assistant follows the City's Fixed Asset Policy to perform the physical tagging process. The Administrative Assistant uses Asset Information Sheets to fill out detailed information about the asset. These forms note the following for each inventory item:

- Department
- Class (Fund Source)
- Tag#
- Item Description
- Model/Serial Number
- Physical Location
- Disposition Code
- Date Acquired
- Original Cost/Value
- Condition (New, Good, Fair, Poor)

The Administrative Assistant then affixes a numbered tag for each item to a visible location and records the tag number on the Asset Information Sheet. The Asset Information Sheets are then submitted to the City's Finance Department. The Clerk Treasurer keeps a master copy of an Asset Inventory list which he updates with new information from the Asset Information Sheet to ensure that proper property records are kept **(Key Control #1)**. The Administrative Assistant also retains payment requests and supporting invoices to document the following:

- Award FAIN applicable to each item
- Exact date of acquisition
- Percentage of Federal Participation in item cost

**(Key Control #2)**

**(b) Inventory:** a physical inventory of federal equipment is conducted at least once every two years (equipment);

The City's fixed asset policy requires an annual physical inventory of assets which is a measure to prevent loss and theft of property and identified damaged property. Once a year, the Shift Captain on duty obtains a copy of the master Asset Inventory and performs a physical inventory of all assets in the department. The Shift Captain on duty performs the inventory count which is supported by an inventory report that lists all assets that were verified during the physical inventory process to ensure equipment is adequately monitored and tracked **(Key Control #3)**. During this physical inventory, the Shift Captain verifies the physical location and condition of each item and searches for any

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items that cannot be found. If an item is not found, the Shift Captain makes note of the missing item on the copy of the inventory sheet. The Shift Captain also makes note of any new assets that have not yet been listed on the master inventory list. After the physical inventory is complete, the inventory list is submitted to the Clerk Treasurer.

The Clerk Treasurer then reconciles the updated inventory list to the prior year's inventory list to ensure that all items are accounted for and that the Finance Department has received sufficient supporting documentation for new items.

**(c) Safeguarded:** there are safeguards to prevent loss, damage, or theft of the property (equipment)

All assets purchased with AFG funds are stored in the fire station or fire apparatus when in operation to ensure they are available to personnel when needed and to prevent loss, unnecessary damage, or theft of the property. Only authorized City personnel have access to the fire station. All items are given a physical tag that is attached to the asset noting the Asset's ID. When an annual physical inventory is taken, the Shift Captain uses the tag number to verify that the asset is still stored in its designated location or on fire apparatus when in use, to ensure the asset is properly safeguarded from loss, damage, and theft. **(Key Control #4).**

**(d) Maintenance:** equipment is maintained in good condition (maintenance procedures) (equipment)

The Fire Chief ensures equipment, such as air packs, purchased with federal funds are maintained in good condition by receiving annual performance evaluations through L.N. Curtis & Sons **(Key Control #5)**. After the annual safety checks are complete, L.N. Curtis & Sons provides the Fire Chief with a performance report and operation status of each individual SCBA air pack which are filed by the Administrative Assistant after the Fire Chief has reviewed them. These evaluations are contractually obligated for three years. At the end of three years, the Fire Department will be responsible for performing annual performance evaluations of these units. The Fire Chief noted that their other equipment is tested by specialists at the Clearwater Paper Mill. Once the three years have expired, the SCBA units will be annually tested by the Clearwater Paper Mill.

**(e) Disposal:** disposal of equipment and/or real property meets federal requirements (as applicable for equipment and real property) and the awarding agency is compensated for its share when sold or converted to non-federal use. - **Not applicable.** Per inquiry with Fire Chief, Darren White, the City did not dispose of any assets acquired with federal funds during the current and prior audit period.

### Key Controls:

Based on our understanding, we identified the following key controls over equipment/real property:

**Key Control #1 (Property Records)** The Clerk Treasurer uses the Asset Information Sheet to update and maintain a master copy of the Asset Inventory list and ensures equipment purchased with federal funds are properly accounted for.

**Key Control #2 (Property Records):** The Administrative Assistant retains payment requests and supporting invoices to ensure the

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following required criteria are supported: (1) grant award FAIN applicable to each item; (2) exact date of acquisition; and (3) percentage of federal participation in item cost.

**Key Control #3 (Inventory):** The Shift Captain on duty performs the inventory count, which is supported by an inventory report that lists all assets that were verified during the physical inventory process, to ensure equipment is adequately monitored and tracked.

**Key Control #4 (Safeguards):** When an annual physical inventory is taken, the Shift Captain on duty uses the tag number to verify that the asset is still stored in a safe location or on fire apparatus when in use, to ensure the asset is properly safeguarded from loss, damage, and theft.

**Key Control #5 (Maintenance):** The Fire Chief ensures equipment, such as air packs, purchased with federal funds are maintained in good condition by receiving annual performance evaluations through L.N. Curtis & Sons.

### Evaluation of Results:

Did you identify any control deficiencies? - **No**.

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. **N/A**
2. Document the rationale for a LOW or HIGH risk assessment. **N/A**

### Preliminary Control Risk Assessment

Based on our understanding of key internal controls, we assess preliminary control risk at **LOW**.

### Internal Control Testing

**Key Control #1 (Property Records)** The Clerk Treasurer uses the Asset Information Sheet to update and maintain a master copy of the Asset Inventory list and ensures equipment purchased with federal funds are properly accounted for.

Dual purpose testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We tested the two SCBA custom unit MSA G1 Air pack purchases that exceeded the City's and federal unit price threshold of \$5,000. Michelle Courtney, Administrative Assistant provided us with the asset information sheets and the asset inventory list. Per our review, we noted Steve included the following required elements:

- Department
- Class (Fund Source)
- Tag#
- Item Description
- Model/Serial Number

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- Physical Location
- Disposition Code
- Date Acquired
- Original Cost/Value
- Condition

See dual purpose testing at [\[F - Equipment Testing\]](#). Based on our testing, we determined the key control is in place and operating effectively to ensure proper records are maintained for equipment purchased with federal funds.

**Key Control #2 (Property Records):** The Administrative Assistant retains payment requests and supporting invoices to ensure the following required criteria are supported: (1) grant award FAIN applicable to each item; (2) exact date of acquisition; and (3) percentage of federal participation in item cost.

Dual purpose testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We tested the two SCBA custom unit MSA G1 Air pack purchases that exceeded the City's and federal unit price threshold of \$5,000. Michelle Courtney, Administrative Assistant provided us with her grant files, which included invoices and reimbursement requests. The records maintained include the following criteria:

- Award FAIN applicable to each item
- Exact date of acquisition
- Percentage of Federal Participation in item cost

See dual purpose testing at [\[F - Equipment Testing\]](#). Based on our testing, we determined the key control is in place and operating effectively to ensure proper records are maintained for equipment purchased with federal funds.

**Key Control #3 (Inventory):** The Shift Captain on duty performs the inventory count, which is supported by an inventory report that lists all assets that were verified during the physical inventory process, to ensure equipment is adequately monitored and tracked.

Dual purpose testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We tested the two SCBA custom unit MSA G1 Air pack purchases that exceeded the City's and federal unit price threshold of \$5,000. Michelle Courtney, Administrative Assistant, provided us the most recent copy of the asset inventory which was used to take physical inventory in May of 2021 [\[PBC: Asset Inventory 2021\]](#). We noted that both custom SCBA units were included and verified in the physical inventory.

See dual purpose testing at [\[F - Equipment Testing\]](#). Based on our testing, we determined the key control is in place and operating effectively

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to ensure a physical inventory of federal equipment is conducted at least once every two years.

**Key Control #4 (Safeguards):** When an annual physical inventory is taken, the Shift Captain on duty uses the tag number to verify that the asset is still stored in a safe location or on fire apparatus when in use, to ensure the asset is properly safeguarded from loss, damage, and theft.

Dual purpose testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We tested the two SCBA custom unit MSA G1 Air pack purchases that exceeded the City's and federal unit price threshold of \$5,000. Michelle Courtney, Administrative Assistant, provided us the most recent copy of the asset inventory which was used to take physical inventory in May of 2021 [PBC: Asset Inventory 2021]. Each SCBA unit was assigned a tag number which was used to verify each units safeguarded location on the fire apparatus.

See dual purpose testing at [F - Equipment Testing]. Based on our testing, we determined the key control is in place and operating effectively to ensure there are safeguards in place to prevent loss, damage, or theft of the property.

**Key Control #5 (Maintenance):** The Fire Chief ensures equipment, such as air packs, purchased with federal funds are maintained in good condition by receiving annual performance evaluations through L.N. Curtis & Sons.

Dual purpose testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We tested the two SCBA custom unit MSA G1 Air pack purchases that exceeded the City's and federal unit price threshold of \$5,000. We obtained the test reports for each custom SCBA airpack from Michelle Courtney, Administrative Assistant. These reports were provided to the Fire Chief by L.N. Curtis & Sons after their annual safety check of the SCBA units. We also noted that the safety check was supported by an invoice from L.N. Curtis & Sons.

See dual purpose testing at [F - Equipment Testing]. Based on our testing, we determined the key control is in place and operating effectively to ensure equipment is maintained in good condition.

### **Evaluation of Results:**

Did you identify any control deficiencies? **No.**

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. **N/A**
2. Document the rationale for a LOW or HIGH risk assessment. **N/A**

### **Final Control Risk Assessment**

We assess final control risk at **LOW**.

### **Risk of Material Noncompliance**



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We assess the risk of material noncompliance at **LOW**

## **Compliance Testing**

### **A. EQUIPMENT**

Identify equipment that was:

- acquired during the audit for program
- *and* acquired in the previous year for program (even if it was a different grant agreement) if we did not audit the program last year.

There were two SCBA custom unit MSA G1 Air pack purchases that exceeded the City's and federal unit price threshold of \$5,000. These units were purchased in the 2020 audit period as evidenced by their invoice dates.

- Item Tag # 2097: MSA G1 Airpack with TIC; Price: \$5,595.00
- Item Tag # 2098: MSA G1 Airpack with TIC; Price: \$5,595.00

1. **Property Records:** Trace selected equipment to the property records to determine if they contain all required information (including disposal info if applicable). While it is a best practice to use one document, it is allowable to record the required information among multiple documents so long as they are formal property records of the entity.

To determine the City is in compliance with property records requirements, we performed dual purpose testing in conjunction with our internal control testing. We obtained the asset inventory list from the Administrative Assistant showing the equipment purchased during 2020. Additionally, we obtained the invoices and payment request for award used to purchase the custom SCBA units, EMW-2018-FO-01923. We examined the inventory listing, invoices, and payment request to verify the property records contained all required elements listed below, as applicable:

1. a description of the property
2. a serial number or other identification number
3. the source of funding for the property (including the federal award identification number)
4. who holds title
5. the acquisition date
6. cost of the property
7. percentage of federal participation in the project costs for the federal award under which the property was acquired
8. the location
9. use and condition of the property

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10. any ultimate disposal data including the date of disposal and sales price of the property  
(2 CFR section 200.313(d)(1)) - **Not applicable.** *The City did not dispose of any equipment purchased with AFG federal funds.*

See dual purpose testing at [\[F - Equipment Testing\]](#). We determined property records contain all required elements, as applicable.

2.a. [Inventory](#): Determine if a physical inventory of federal equipment (acquired from your audit program) was conducted at least once within the last two years. If the inventory was taken last year but unaudited, it should be included for testing now.

To determine the City is in compliance with property records requirements, we performed dual purpose testing in conjunction with our internal control testing. We obtained the most recent record of physical inventory taken in May 2021, found here [\[PBC: Asset Inventory 2021\]](#), from the Administrative Assistant, Michelle Courtney. The record of physical inventory taken in 2020 was unavailable because the inventory sheet is updated with the taking of each annual physical inventory. We noted that the two custom SCBA units were included in the most recent physical inventory count. We will not taken exception to only being able to obtain the 2021 inventory because the federal requirement states that an inventory must be taken at least once within the last two years. As the custom SCBA units were purchased at the beginning of 2020, the Department would still be compliant even if they did not take a physical inventory until 2021. Regardless of whether or not inventory was taken during 2020, the 2021 records indicate that the City did perform a physical inventory count within two years of purchase. We will not take exception.

See dual purpose testing at [\[F - Equipment Testing\]](#). We determined a physical inventory of federal equipment was conducted at least once within the last two years.

2.b. Determine whether any differences between the physical inventory and equipment records were resolved.

**Not Applicable** - Per inquiry with the Fire Chief and Administrative Assistant, and review of inventory records, we confirmed there were no differences between the physical inventory and equipment records.

3. [Safeguards & Maintenance](#): Determine if the equipment is being safeguarded and adequately maintained.

To determine the City is in compliance with property records requirements, we performed dual purpose testing in conjunction with our internal control testing. We obtained the asste inventory list and determined each SCBA unit was assigned a tag number which was used to verify each units safeguarded location on the fire apparatus. The City purchased the SCBA units from L.N. Curtis & Sons. As part of the purchase, LN Curtis & Sons agreed to perform safety checks for the SCBA units for 3 years after the purchase. The Administrative Assistant provided a list of units that underwent a safety check by LN Curtis & Sons. We noted that both custom SCBA units were included in that list. Additionally, the Fire Chief provided an invoice for the safety checks as support that proper maintenance was conducted.

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See dual purpose testing at [F - Equipment Testing]. We determined equipment is properly safeguarded and adequately maintained.

4. Disposals: Applicable if *any* equipment was disposed of during the audit period or prior year (if unaudited) and the per-unit fair market value – *not book value* – was greater than \$5,000 at the time of disposal. Select those with ending value over \$5,000 and determine if the federal share was reimbursed to the grantor.

**Not Applicable.** Per inquiry with the Fire Chief and review of inventory records, the City did not dispose of equipment purchased with federal funds during the audit period or in recent years. We reviewed the inventory listing and noted that both SCBA units were listed and accounted for during the last inventory in May of 2021.

**No Concerns noted.**

### B. REAL PROPERTY

**Not Applicable.** Per inquiry with the Fire Chief, Administrative Assistant, and Clerk Treasurer, as well as review of invoices and expenditures charged to the grant, we did not identify any purchases of real property.

### Evaluation of Results:

Did you identify any noncompliance? - **No.**

If so, **you must:**

1. Determine and document the magnitude of the noncompliance on the program as a whole. **N/A**
2. Document the reason for the noncompliance. **N/A**
3. Consider whether additional testing is needed to provide reasonable assurance of detecting material noncompliance (e.g. is the risk of material noncompliance increased for the activities or costs that you did not test?). **N/A**
4. Reassess the final control risk. Generally, noncompliance is the result of a control deficiency; therefore, it is necessary to reconsider the effectiveness of the internal controls. **N/A**

### D.1.PRG - Assistance to Firefighters Grant - 97.044

**Procedure Step:** G. Matching/Level of Effort

**Prepared By:** AR, 11/15/2021

**Reviewed By:** AMS, 3/4/2022

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Purpose/Conclusion.\*

**Purpose:**

To determine if the entity has adequate internal controls over and is in compliance with the matching, level of effort and/or earmarking requirements.

**Conclusion:**

We determined internal controls **do** provide reasonable assurance that **Matching and Level of Effort** requirements are met, and tested compliance with those requirements.

Based on our testing, we identified the following **control deficiencies**, **questioned costs**, and/or **noncompliance**, which we carried to the Major Federal Program worksheet [[Major Federal Program - Local teams](#)]:

- **NONE**

Testing Strategy.\*

Perform the following steps:

1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

**Step 1: Read and Gather Information**

[Identify Requirements](#): Review Part 4 of the Compliance Supplement, the grant agreement and any available program manuals/guides to determine the specific requirements over matching, level of effort, or earmarking.

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**Matching:** Matching, a.k.a. cost sharing, includes requirements to provide contributions (usually non-federal) of a specified amount or percentage to match Federal awards. The match may be cash or non-cash such as:

1. **Cash (most common):** For each allowable program expenditure incurred, the entity only requests the federal portion to be reimbursed (for example 80%), and the remaining portion of the expenditure not reimbursed (for example 20%) is considered the entity's match (assuming it is from an allowable source and not counted as match in another program).
2. **In-Kind Contributions:** When provided by the entity, these are usually non-cash contributions whose value is agreed upon with the grantor, such as infrastructure and other capital assets.
3. **Third-Party In-Kind Contributions:** Contributions from the public or other governments may be cash or non-cash and can include the value of volunteer services or employees of other agencies, donated supplies, and loaned equipment.
4. **Program Income:** Program income can be used as matching funds only with prior written approval from the grantor.

**Matching vs. the Compliance Supplement:** The Compliance Supplement may indicate that matching is not applicable to the program, however, the awarding documents may specify a match. Awarding agencies can impose additional program requirements on top of the basic program described in the Compliance Supplement. **Remember** – *if the program is included in Part 4, only audit matching if subject to audit (pick-six).*

**Level of effort** includes requirements for:

- a) Maintaining a specified level of service from period to period.
- b) Maintaining a specified level of expenditures from period to period, with emphasis on the funding source used and the activities they relate to.
- c) Using federal funds to supplement, not supplant, services provided through non-federal (state/local) funding. If the requirement relates to supplanting, refer to the policy tab for examples.

**Earmarking:** Earmarking, a.k.a. set-asides, includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

### **Step 2: Assess Inherent Risk (IR)**

See steps to assess inherent risk in the Single Audit Planning Guide.

### **Step 3: Gain an Understanding of Internal Controls**

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Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

**a) Matching:** the minimum amount of local contributions/matching funds was provided from an allowable source.

**b) Level of Effort:** the specified service level or expenditure levels were maintained.

**c) Level of Effort-Supplanting:** state/local funding (funded services) were not replaced by federal funds.

**d) Earmarking:** the minimum or maximum limits for specified purposes or types of participants were met.

### Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as "**low**" when:

(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### Step 5: Test Internal Controls

If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.

Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an

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example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the “Major Federal Program” spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a “significant deficiency” or “material weakness.”

### Step 7: Assess the Risk of Material Non-Compliance (IR and CR)

The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

### Step 8: Test Compliance MATCHING

#### 1. Amount/Percentage Met:

Review reimbursement requests and any other necessary records to determine whether the required amount or percentage of match was met. (Note: some programs require the percentage to be met throughout the program, at each reimbursement request, while others require it to be met by at least the end of the project).

#### 2. Source of Match:

Determine whether the type of match provided (e.g., local cash expenditure, grantee-donated property, volunteer time, etc.) is allowable according to the awarding documents.

#### 3. In-Kind Values:

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If in-kind contributions were used, determine whether the values placed on in-kind contributions are in accordance with the terms of the awards, grantor correspondence, cost principles and match requirements (UG:2 CFR sections 200.306, 200.434 and 200.414).

### 4. [Match Costs Meet Same Standards as Federal Costs:](#)

Test the match transactions for compliance with allowable cost and cost principles requirements, such as adequate supporting documentation (*especially* time and effort), allocable, necessary and reasonable, etc. This test may be performed with the allowable cost/cost principle testing of the federal expenditures.

## LEVEL OF EFFORT - MAINTENANCE OF EFFORT

### 1. [Level Met:](#)

Identify the required level of effort (service or expenditure level) and perform tests to determine the level required was met. This will include a comparison of prior year(s) to audit year activity. Limit your review to the specified funding source and/or activity required – see the next step.

### 2. [Calculation:](#)

- a. Determine if the entity's level of effort calculation only includes allowable funding sources, types of expenditures or other effort measurements (e.g. hours of service, number of people served). The categories should be consistent from year to year to make them comparable. For example, in some programs, capital expenditures may not be included in the computation.
- b. Determine whether monetary amounts used in the level of effort calculation are supported by the entity's financial or other records.
- c. Determine whether non-monetary effort measurements were supported by official records.

## LEVEL OF EFFORT - SUPPLANTING

[Examples:](#) Refer to the policy tab for examples of Supplanting.

### 1. [General Supplanting Tests:](#)

Identify the services and positions funded by the program during the audit period (e.g. counseling, training, etc.). Follow the questions in order for each selected expenditure transaction to determine if the service was:

Service/Position*	Yes	No
A. Required by federal, state or local law? (inquire with the entity or AIC)	<b>Supplanting may have occurred.</b> Check your program for any possible exceptions.	Continue to the next question.



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B. New service or position ( <i>not employee</i> ) during the audit period?	The entity is in compliance with supplanting requirements.	Continue to the next question.
C. A continuing service or position that was state/locally funded last year?	<b>Supplanting may have occurred.</b> Check your program for any possible exceptions.	Continue to the next question.
D. A continuing service or position that was federally funded last year?	The entity is in compliance with supplanting requirements.	Error. Go back to question C.

\*Note: For payroll, the supplanting requirement will be attached to the position rather than the person holding it. So, although the position may have turnover, supplanting will apply to the funding history of that position.

### 2. [Specific Supplanting Tests](#):

Check the grant agreement, Compliance Supplement and/or grantor manuals to identify and test any other additional supplanting requirements.

## EARMARKING

### 1. [Identify Earmarks](#):

Identify the percentage or dollar amount of earmarks. Determine which are direct and material, following the same guidance in the "Compliance Requirements" testing strategy.

### 2. [Set Aside](#):

Determine if the entity set aside an amount that met minimum and/or maximum requirements and any other special considerations. This may have been in the program budget.

### 3. [Spent the Earmark - Minimums](#):

Not all earmarks require the entity spend the amount set aside. For those that do, if they must *at least* spend a certain amount:

- Support:** Determine if the amount spent for the program is supported by financial records.
- Classification:** Select expenditures applied to the earmark. Test to determine if those expenditures were properly classified, to address the risk that unrelated costs were included.

\*Testing may be done as a dual purpose with A/B Allowable Cost/Cost Principle testing.

### 4. [Spent the Earmark - Maximums](#):

Not all earmarks require the entity spend the amount set aside. For those that do, if they *cannot* spend *more than* a certain amount:

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- a. [Support](#): Determine whether financial records show costs applied to the program did not exceed the maximum.
- b. [Classification](#): Select expenditures applied to the federal program that the entity *did not* apply to the earmark. Test to determine if those expenditures were properly classified, to address the risk federal funds were spent on the earmark but recorded as other types of costs to avoid the maximum's limitation.

Example: Only 10% of the federal program may be used for administrative costs, so review program expenditures other than administrative costs to identify administrative costs which were improperly classified elsewhere.

\*Testing may be done as a dual purpose with A/B Allowable Cost/Cost Principle testing.

### 5. [Participant Earmarks - Minimums](#):

When there is an earmark limit regarding a minimum number/percentage of participants that can be served, select participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.

### 6. [Participant Earmarks - Maximums](#):

When there is an earmark limit regarding a maximum number/percentage of specified types of participants that can be served, select other participants and perform tests to verify that they were not of the specified type.

## **Evaluate the results.**

Guidance/Criteria:

[Compliance Supplement for 2020 Part 3 & 6 Excerpt](#) - an excerpt from Part 3 (Compliance Requirements) and Part 6 (Internal Controls) for the 2020 Compliance Supplement

### **INTERNAL CONTROL UNDERSTANDING**

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

### **SOURCE OF GOVERNING REQUIREMENTS**

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The requirements for matching, level of effort, and earmarking are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award, as well as 2 CFR section [200.306](#) for awards under UG.

### **WHAT IS SUPPLANTING?**

The federal government wants the grantee to use its federal funds to supplement (enhance) the existing resources for the program, instead of supplanting (replacing) its local funds with the federal grant. Basically, federal funds should supplement the existing local resources and build upon the current program. The federal funds should not supplant (replace) the existing local/state funds. Below are some examples:

#### COPS grant (CFDA 16.710)

COPS grant funds must be used to hire (on or after the award start date) one or more additional, new career law enforcement officer positions, beyond the number of officer positions that would be hired or employed by the grantee with local funds in the absence of the grant.

#### HUD Emergency Shelter Grants(CFDA 14.231)

The Emergency Shelter Grants (ESG) Program is designed to help improve the quality of existing emergency shelters for the homeless, make available additional emergency shelters, and meet the costs of operating emergency shelters and of providing essential social services to homeless individuals so that these persons have access not only to safe and sanitary shelters for the homeless but also to the supportive services and other kinds of assistance they need to improve their situations.

Grant amounts may be used to provide essential services to the homeless only if the service is a new service, or is a quantifiable increase in the level of service above that which the unit of general local government provided with local funds during the 12 calendar months immediately before it received initial grant amounts.

#### HUD Supportive Housing Program (CFDA 14.235)

The Supportive Housing Program is designed to promote the development of supportive housing and supportive services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons so they can live as independently as possible. No assistance provided under this program, or any State or local government funds used to supplement this assistance, may be used to replace State or local funds previously used, or designated for use, to assist homeless persons.

Record of Work Done.
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### **Inherent Risk of Noncompliance**

In accordance with AU-C sec. 935, we have considered the following inherent risk factors that apply to this compliance requirement:

- [Is the compliance requirement new to the agency or has the requirement changed recently?](#) - **NO**

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- Is the compliance requirement considered an area of higher risk in the Compliance Supplement or by oversight agencies? **NO**
- Does the compliance requirement involve a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program? **NO**
- Is there a lack of oversight by the grantor or pass-through agency? **NO**
- Is the compliance requirement relatively complex or are related activities difficult to audit? **NO**
- Are multiple locations or departments responsible for administering the requirement? **NO**
- When assessing the risk of Type A and Type B programs during single audit planning (refer to the risk assessment spreadsheet), did you find that this compliance requirement is one that is susceptible to fraud, theft of assets, or fraudulent reporting of financial or programmatic data to the grantor or public? **NO**

Based on these results, we assessed the inherent risk of noncompliance at **LOW**.

### **Key Personnel**

Darren White - Fire Chief

Michelle Courtney - Administrative Assistant

Steve Austin - Clerk Treasurer

### **Background Information:**

The City of Clarkston had three (3) active awards under the CFDA 97.044 Assistance to Firefighters Grant (AFG) during FY 2020. These are EMW-2018-01923, EMW-2019-01017, and EMW-2020-FG-00798. Per our review of the NOFOs, we identified the following compliance requirements for matching/level of effort for EMW-2018, EMW-2019, and EMW-2020:

**Matching:** For all awards, when serving a jurisdiction of 20,000 residents or fewer (Clarkston's estimated 2020 population = 7,300), the applicant shall agree to make available non-federal funds in an amount equal to and not less than 5 percent of the grant awarded.

<b>Grant Award #</b>	<b>Matching Requirement</b>
EMW-2018-FO-01923	Required to contribute non-Federal funds equal to not less than 5% of the grant awarded - *\$10,050.34
EMW-2019-FG-01017	Required to contribute non-Federal funds equal to not less than 5% of the grant awarded - *\$8,095.24
EMW-2020-FG-00798	Required to contribute non-Federal funds equal to not less than 5% of the grant awarded - *\$335.54

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**Level of Effort:** For all awards, as required by 15 USC 2229(k)(3) the applicant seeking an AFG grant shall agree to maintain, during the term of the grant, the applicant's aggregate expenditures relating to activities allowable under the applicable NOFO, at not less than 80 percent of the average amount of such expenditures in the two preceding fiscal years to the year this grant is awarded. Essentially, this requirement is meant to ensure that, upon the award of federal funds, the City maintains the Fire Department's funding at a steady level and does not cut funding simply because they were awarded federal money.

### **Understanding of Internal Controls**

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

**a) Matching:** the minimum amount of local contributions/matching funds was provided from an allowable source.

We spoke with the Fire Chief, Administrative Assistant, and the Clerk Treasurer about the City's controls to ensure that the minimum amount of local contributions/matching funds were provided from an allowable source.

Per the Notices of Funding Obligation (NOFOs), the match requirement is as follows, "When serving a jurisdiction of 20,000 residents or fewer, the applicant shall agree to make available non-federal funds in an amount equal to not less than 5 percent." The Fire Chief, Administrative Assistant, and the Clerk Treasurer read each grant award NOFO and are aware of the local match requirements.

The City uses local cash to fund the match requirement. The Clerk Treasurer noted that the Fire Department's annual budget comes from three different funds within the City: (1) EMS Fund 120, (2) Rescue Unit One Fund 102, and (3) the Fire Fund (consists of accounts within the Current Expense Fund 001). The Fire Chief initiates all purchases on account with the vendor. The vendor sends invoices or quotes to the Fire Department. During the review of each invoice/quote, the Fire Chief attaches a pink slip that indicates the applicable Account Code and Fund to which the Clerk Treasurer should use to expend funds used for the purchase. The invoice/quote is then sent to the Finance Department and reviewed by the Clerk Treasurer. The Clerk Treasurer then enters the expenditures into the General Ledger and uses the Account Code and Fund Number that is listed on the pink slip. Expenses for each award utilized the following account codes:

EMW 2018 Expenditure Account Numbers:  
001-000-080-594-22-64-91

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### EMW 2019 Expenditure Account Numbers:

001-000-080-522-10-35-00  
102-000-081-522-70-35-00  
120-000-084-522-70-35-00

### EMW 2020 Expenditure Account Numbers:

001-000-080-594-22-64-91

The Administrative Assistant was responsible for submitting the Request for funds (reimbursement requests) via the FEMA.GO website. The Administrative Assistant uses grant obligation documents, approved invoices/quotes, and pink slips when preparing the cash advance/reimbursement request to ensure minimum match requirements are met and provided from an allowable source (**Key Control - Matching**). The Administrative Assistant records the local match, federal share amount requested, period of performance covered by the request, and the City's "payee" information. She calculates the total amount from the invoices/quotes and performs additional calculations to determine the local (match) and federal portion of expenditures. She also references the accounts codes identified on the pink slips to ensure the local match is provided from an allowable source.

**b) Level of Effort:** the specified service level or expenditure levels were maintained.

The Notices of Funding Obligation (NOFOs) states that the Fire Department is required, "...to maintain, during the term of the grant, the applicant's aggregate expenditures relating to activities allowable under the applicable NOFO, at not less than 80 percent of the average amount of such expenditures in the two preceding fiscal years to the year this grant is awarded." Essentially, this requirement is meant to ensure that, upon the award of federal funds, the City maintains the Fire Department's funding at a steady level and does not cut funding simply because they were awarded federal money.

We spoke with the Clerk Treasurer about this requirement. The Clerk Treasurer noted that the Fire Department's budget comes from three different funds within the City: (1) EMS Fund, (2) Rescue Unit One Fund, and (3) the Fire Fund (consists of accounts within the Current Expense Fund). During each year, the Fire Department can pull from each of these three funds. The Fire Department predominately used the Fire Expense Accounts within the Current Expense Fund for purchased made with EMW-2018, EMW-2019, and EMW-2020. However, as the Motorola Radio purchase charged to Award # EMW-2019 benefited Fire Services, EMS Services, and Rescue One Services, the local percentage match was allocated between each of the three funds.

Per the Clerk Treasurer, the Fire Department typically has a stable or increasing budget year after year. The City evaluates the funds in aggregate to ensure that they are in compliance with federal maintenance of effort requirements.

During the application process for the City's first AFG award, EMW-2018, the Clerk Treasurer had a conversation with the Fire Chief about the

## City of Clarkston

Maintenance of Effort requirement. The Clerk Treasurer and Fire Chief discussed that there would not be a planned or orchestrated reduction of funds upon the receipt of federal funds. The Clerk Treasurer read each grant award agreement is therefore aware of this requirement. He monitors the budget and actual figures to ensure they are steadily increasing so that the City is in compliance with this requirement. A decrease in the aggregate budget would alert the Clerk Treasurer to perform calculation to ensure that the Department is in compliance with the requirement.

### **Key Controls:**

Based on our understanding of internal controls, we identified the following key controls for matching and level of effort:

**Key Control (Matching):** The Administrative Assistant uses grant obligation documents, approved invoices/quotes, and pink slips when preparing the cash advance/reimbursement request to ensure minimum match requirements are met and provided from an allowable source.

**Key Control (Level of Effort):** During the annual budget procedures, the Clerk Treasurer monitors the budget to actual figures to see if they are steadily increasing or remaining stable to ensure that the City is in compliance with the 80% maintenance of effort requirement.

### **Evaluation of Results:**

Did you identify any control deficiencies? - **NO**

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. **N/A**
2. Document the rationale for a LOW or HIGH risk assessment. **N/A**

### **Preliminary Control Risk Assessment**

Based on our understanding of key internal controls, we assess preliminary control risk at:

Matching **LOW**

Level of Effort **LOW**

### **Internal Control Testing**

**Key Control (Matching):** The Administrative Assistant uses grant obligation documents, approved invoices/quotes, and pink slips when preparing the cash advance/reimbursement request to ensure minimum match requirements are met and provided from an allowable source.

Dual purpose testing: To determine whether this key control is in place and operating effectively, we performed dual purpose testing in conjunction with our compliance testing as follows:

	Cumulative Non-Federal	Actual Non-Federal (Local)
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	Commitment per Obligating Document	Commitment Paid
EMW-2018	\$ 10,050.34	\$ 10,194.03
EMW-2019	\$ 8,095.76	\$ 8,194.38
EMW-2020	\$ 335.54	\$ 359.16

**EMW-2018-FO-01923:** We obtained the payment requests and copies of the invoices charged to this grant award. From the invoices and payment requests, we noted that the Department incurred and paid reimbursable expenditures of \$211,260.69 and requested reimbursement of \$201,066.66; a difference of \$10,194.03 paid with local funds. The Administrative Assistant used the Obligating Document to note that the maximum award amount is \$201,066.66 and the total non-federal commitment is \$10,050.34. We noted that the amount requested did not exceed the maximum award amount and the total amount paid with local funds was greater than the amount required by the obligating document. **We noted no exceptions.**

**EMW-2019-FG-01017:** We obtained the payment request and copies of the invoices charged to this grant award from the Administrative Assistant, Michelle Courtney. From the invoices and payment requests, we noted that the Department incurred and paid reimbursable expenditures of \$170,099.14 and requested reimbursement for \$161,904.76; a difference of \$8,194.38 paid with local funds. The Administrative Assistant used the Obligating Document to note that the maximum award amount is \$161,904.76 and the total non-federal commitment is \$8,095.76. For this award, we noted that the amount requested did not exceed the maximum award amount and the total amount paid with local funds was greater than the amount required by the obligating document. **We noted no exceptions.**

**EMW-2020-FG-00798:** We obtained the payment request and invoices charged to this grant award from the Administrative Assistant, Michelle Courtney. From the invoices and payment requests, we noted that the Department incurred and paid reimbursable expenditures of \$7,070.02 and requested reimbursement for \$6,710.86; a difference of \$359.16 paid with local funds. The Administrative Assistant used the Obligating Document to note that the maximum award amount is \$6,710.86 and the total non-federal commitment is \$335.54. For this award, we noted that the amount requested did not exceed the maximum award amount and the total amount paid with local funds was greater than the amount required by the obligating document. **We noted no exceptions.**

See dual purpose testing at [[G - Matching Testing](#)]. Based on our testing, we determined that this control is operating effectively to ensure compliance with matching requirements.

**Key Control (Level of Effort):** During the annual budget procedures, the Clerk Treasurer monitors the budget to actual figures to see if they are steadily increasing or remaining stable to ensure that the City is in compliance with the 80% maintenance of effort requirement.



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Dual purpose testing: To determine whether this key control is in place and operating effectively, we performed dual purpose testing in conjunction with our compliance testing. Steve Austin, Clerk Treasurer provided us with his budget to actual reports for 2018, 2019, and 2020 and level of effort calculations. Steve verified the budget and actual expenditures for each account used for federal expenditures were greater each year (see table below for year-to-year expenditure comparison). Additionally, he reviewed the expense accounts that were used for the expenditure of federal funds. See dual purpose testing at [\[Maintenance of Effort Testing\]](#). Steve's evaluation confirmed the 2020 budgeted and actual expenditures, as a percentage of the average expenditures of 2018 and 2019, increased. Since each year the budget was greater than the prior year or decreased by a marginal amount, the Clerk Treasurer knows that the City is in compliance with the 80% restrictions.

Row Labels		2018-Actual	2019-Actual	2020-Budgeted
Fund 001 (Fire Department Accounts)		\$ 836,525.30	\$ 939,037.71	\$ 1,335,629.00
Fund 102 - Rescue Unit One		\$ 0	\$ 0	\$ 3,000.00
Fund 121 - EMS		\$ 1,748,594.93	\$ 1,814,311.65	\$ 1,810,559.00
<b>Grant Total</b>		<b>\$ 2,585,119.93</b>	<b>\$ 2,753,349.36</b>	<b>\$ 3,149,188.00</b>

Based on our testing, we determined that this control is operating effectively to ensure compliance with level of reporting requirements.

### **Evaluation of Results:**

Did you identify any control deficiencies? - **NO**

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. **N/A**
2. Document the rationale for a LOW or HIGH risk assessment. **N/A**

### **Final Control Risk Assessment**

We assess final control risk at:

Matching **LOW**

Level of Effort **LOW**

### **Risk of Material Noncompliance**

We assess the risk of material noncompliance at:

Matching **LOW**

Level of Effort **LOW**

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## **Compliance Testing**

### **MATCHING**

#### 1. Amount/Percentage Met:

Review reimbursement requests and any other necessary records to determine whether the required amount or percentage of match was met. (Note: some programs require the percentage to be met throughout the program, at each reimbursement request, while others require it to be met by at least the end of the project).

See dual purpose testing at [[G - Matching Testing](#)]. We reviewed the NOFOs for awards EMW-2018, EMW-2019, and EMW-2020 and did not note any specific requirement on how or when the Department was required to meet its match. The NOFOs only state the Department is responsible for a cumulative non-federal commitment of the amounts listed in the table below. We obtained all invoices, payment requests, and general ledger support to determine the amount actually paid with local funds. See table below for our testing. For each award, we noted that at the Department met and exceeded the minimum cumulative non-federal commitment. **We noted no exceptions.**

Grant #	Cumulative Non-Federal Commitment per Obligor Document	Actual Non-Federal (Local) Commitment Paid
EMW-2018	\$ 10,050.34	\$ 10,194.03
EMW-2019	\$ 8,095.76	\$ 8,194.38
EMW-2020	\$ 335.54	\$ 359.16

#### 2. Source of Match:

Determine whether the type of match provided (e.g., local cash expenditure, grantee-donated property, volunteer time, etc.) is allowable according to the awarding documents.

See dual purpose testing at [[G - Matching Testing](#)]. The Department used local cash expenditures as allowed by FEMA to meet its required match. **No exceptions.**

#### 3. In-Kind Values:

If in-kind contributions were used, determine whether the values placed on in-kind contributions are in accordance with the terms of the awards, grantor correspondence, cost principles and match requirements (UG:2 CFR sections 200.306, 200.434 and 200.414).

**Not applicable.** In-kind contributions were not used.

#### 4. Match Costs Meet Same Standards as Federal Costs:

Test the match transactions for compliance with allowable cost and cost principles requirements, such as adequate supporting documentation

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(*especially* time and effort), allocable, necessary and reasonable, etc. This test may be performed with the allowable cost/cost principle testing of the federal expenditures.

We tested all expenditures for allowable cost and cost principle requirements by obtaining the payment requests, invoices, and supporting documentation here [\[A-B-H Activities Allowed/Allowable Cost/Period of Performance\]](#). **We noted no exceptions.**

### LEVEL OF EFFORT - MAINTENANCE OF EFFORT

#### 1. [Level Met](#):

Identify the required level of effort (service or expenditure level) and perform tests to determine the level required was met. This will include a comparison of prior year(s) to audit year activity. Limit your review to the specified funding source and/or activity required – see the next step.

Steve provided us with the budget to actual expenditure reports for 2018, 2019, and 2020 (fund-level summary shown in table below) and level of effort calculations. We populated our testing spreadsheet with the 2018 and 2019 actual figures and 2020 budgeted figures and re-performed Steve's calculation to verify the required maintenance of effort was upheld. Additionally, we reviewed the expense accounts that were used for the expenditure of federal funds. See dual purpose testing at [\[Maintenance of Effort Testing\]](#).

Row Labels		2018-Actual	2019-Actual	2020-Budgeted
Fund 001 (Fire Department Accounts)		\$ 836,525.30	\$ 939,037.71	\$ 1,335,629.00
Fund 102 - Rescue Unit One		\$ 0	\$ 0	\$ 3,000.00
Fund 121 - EMS		\$ 1,748,594.93	\$ 1,814,311.65	\$ 1,810,559.00
<b>Grant Total</b>		<b>\$ 2,585,119.93</b>	<b>\$ 2,753,349.36</b>	<b>\$ 3,149,188.00</b>

We noted that in aggregate, the 2020 budgeted and actual expenditures, as a percentage of the average expenditures of 2018 and 2019, increased. We noted no concerns.

#### 2. [Calculation](#):

- Determine if the entity's level of effort calculation only includes allowable funding sources, types of expenditures or other effort measurements (e.g. hours of service, number of people served). The categories should be consistent from year to year to make them comparable. For example, in some programs, capital expenditures may not be included in the computation.
- Determine whether monetary amounts used in the level of effort calculation are supported by the entity's financial or other records.
- Determine whether non-monetary effort measurements were supported by official records.

The Fire Department used the following two accounts for expenditures for activities that were paid with federal funds:

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- (a) 52210 Fire & Ambulance Services
- (b) 59422 Capital Expenditures/Expenses - Fire Suppression & EMS

The City's funding source for the Fire Department is consistent between years. The Clerk Treasurer monitors the budgets in each account to ensure that types of maintenance of effort measurements increased or remained consistent from year to year. When compared to the average actual expenditures of 2018 & 2019, the 2020 budgeted expenditures make up the following percentage:

- (a) 52210 Fire & Ambulance Services: 102%
- (b) 59422 Capital Expenditures/Expenses: 120%

Because the Clerk Treasurer knew that the aggregated budget for these accounts increased, he knew the City's expenditures were greater than the 80% requirement and was therefore in compliance.

The monetary amounts used in the level of effort calculation were supported by the City's financial records. There were no non-monetary effort measurements used in their calculation.

**We noted no concerns.**

### **Evaluation of Results:**

Did you identify any noncompliance? - **No**

If so, **you must:**

1. Determine and document the magnitude of the noncompliance on the program as a whole. **N/A**
2. Document the reason for the noncompliance. **N/A**
3. Consider whether additional testing is needed to provide reasonable assurance of detecting material noncompliance (e.g. is the risk of material noncompliance increased for the activities or costs that you did not test?). **N/A**
4. Reassess the final control risk. Generally, noncompliance is the result of a control deficiency; therefore, it is necessary to reconsider the effectiveness of the internal controls. **N/A**

### **D.1.PRG - Assistance to Firefighters Grant - 97.044**

**Procedure Step:** I. Procurement/Suspension and Debarment

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*Prepared By:* AR, 12/20/2021

*Reviewed By:* AMS, 3/9/2022

## Purpose/Conclusion:

### **Purpose:**

To determine if internal controls provide reasonable assurance that procurement and suspension and debarment requirements are met, and to test compliance with those requirements.

### **Conclusion:**

We determined internal controls **do not** provide reasonable assurance that **Procurement and Suspension and Debarment** requirements are met, and tested compliance with those requirements.

Based on our testing, we identified the following **control deficiencies, questioned costs, and/or noncompliance**, which we carried to the Major Federal Program worksheet [[Major Federal Program - Local teams](#)]:

- Written procurement procedures:
- Control deficiency: The City has not updated its procurement policy since 2005 due to other demands and COVID-19 restrictions, although they are aware it needs to be updated to comply with federal procurement requirements. Specifically, we noted the policy does not include procurement procedures for using the piggyback method, which is the procurement method applicable to our audit period. The City did not dedicate the necessary time and resources to research, implement, and maintain its written procurement procedures to conform with federal standards.
- Noncompliance: The City's written procurement policy did not comply with Uniform Guidance requirements. Specifically, the policy did not:
  - include documented procedures and thresholds for piggybacking (2 CFR 200.317 through 200.327), particularly given that state law procedures are contrary to the federal procedures. The City must ensure that the procurement method performed by the principal party meets the most restrictive procurement practices applicable to the City. We would expect the City to obtain copies of the procurement documents (affidavits of publication, all bids, bid opening, quotes, evaluations for consultants/A&E) to confirm. The City must also have a contract/interlocal agreement with the other government in order to piggyback off their contract or procurement process.
  - outline when a cost or price analysis is required (2 CFR 200.324). Cities must perform a cost or price analysis in connection with every procurement action in excess of the simplified acquisition threshold, including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular

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procurement situation, but as a starting point, an independent estimate must be made before receiving bids or proposals. In addition, the City used the piggybacking method. As such, written procedures should also document that the cost or price analysis would be performed by the lead and the City should have verified the analysis was performed when applicable.

- Written Standards of Conduct that covers conflict of interest:
  - Control deficiency: The City has not updated its employee handbook, which covers conflict of interest policies, since 2016, although they are aware it needs to be updated to comply with federal procurement requirements. The City did not dedicate the necessary time and resources to research, implement, and maintain its written standards of conduct procedures to conform with federal standards.
  - Noncompliance: The City's written standards of conduct/policy did not comply with Uniform Guidance requirements, Specifically, the policy did not address the following:
    - The officers, employees, and agents may not participate in the selection, award, or administration of a contract supported by a Federal award if they have a real *or apparent* conflict of interest. The City's policy states, "Employees are expected to represent the City of Clarkston in a positive and ethical manner. Thus, employees have an obligation to avoid conflicts of interest and to refer questions and concerns about potential conflicts to their supervisor". The policy does not address conflicts of interest specifically related to participating in contracts.
    - The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. The City's policy states, "Employees and their immediate family may not accept gifts, except those of nominal (i.e., less than \$20.00) value, or any special discounts or loans from any person or firm doing, or seeking to do, business with the City of Clarkston. The meaning of gifts for purposes of this policy includes the acceptance of entertainment and free travel and lodging." The policy allows employees and their immediate families to accept gifts of less than \$20.
- Suspension and debarment:
  - Control deficiency: The Clerk Treasurer received verbal confirmation from the Fire Chiefs, who no longer work at the City, that suspension and debarment was verified. However, the City does not have documentation to support suspension and debarment was verified either through a signed contract, certificate, or search engine (SAM.gov) check.
  - Noncompliance: The City did not retain documentation to support suspension and debarment status was verified for 2 of 2 vendors. This makes up 100% of the population, 99.9% (or \$369,264) of total grant expenditures. We verified all vendors were not suspended or debarred, therefore we are not questioning costs.
- Procurement:
  - Control deficiency: The City purchased goods using contracts awarded by another government or group of governments via interagency agreements (piggybacking). To comply with this law, the City must enter into an agreement with the lead

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agency before it purchases goods from the lead agency's bid contract. The City did not enter into an interagency agreement with PPA as state law requires. In addition, the City did not obtain documentation to support a cost-price analysis was performed by PPA. The City also did not perform its own cost-price analysis. The City believed it entered into an interagency agreement with the lead agency. In addition, the City did not retain documentation to support a cost or price analysis was performed by the lead agency.

- Noncompliance: Per our review of the competitive proposal documents, we determined the lead public agency was Public Procurement Authority (PPA). The City did not enter into a valid signed agreement with PPA before the purchase as state law requires. Documentation supports a competitive proposal was performed, but the City did not obtain documentation to support a cost-price analysis was performed by PPA. The City also did not perform its own cost-price analysis. This makes up 50% of the population and 56.1% (or \$207,359) of total grant expenditures.

Testing Strategy:

### **PROCUREMENT/SUSPENSION & DEBARMENT**

Perform the following steps:

1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

### **Step 1: Read and Gather Information**

*Reminder 1 – If procurement is not direct and material, you do not have to test the policies*

*Reminder 2 – The Uniform Guidance (2 CFR 200.320(f)) allows procurement by noncompetitive proposals when there is a public emergency, as does state law (RCW 39.04.280). We would expect noncompetitive proposals to be covered in the auditees written procurement procedures and also expect them to comply with state law. Refer to the bidding and procurement planning guide for guidance if the auditee used noncompetitive proposals.*

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### PROCUREMENT

Resources: In addition to reviewing the Compliance Supplement, awarding documents and any applicable policy or guidance documents from the awarding agency, review the Bidding and Procurement Planning Guide on the HUB.

Documented (Written) Procurement Procedures (2 CFR 200.318): The non-Federal entity must have and use documented procurement procedures, consistent with State, local, and tribal laws and regulations and the standards of this section, for the acquisition of property or services required under a Federal award or subaward. The non-Federal entity's documented procurement procedures must conform to the procurement standards identified in §§200.317 through 200.327. Generally the documented procurement procedures are in the form of a policy, but they don't have to be. They just have to be written procedures, such as internal procedures or checklists. Whatever the form, the written procedures should state the thresholds the entity will use for micro-purchases (if elected), small purchase procedures, formal bidding, competitive proposals, and guidance on noncompetitive proposals (such as sole source or emergencies). It would also be appropriate for entities to include procedures for piggybacking, particularly given that state law procedures are contrary to the federal procedures (see more on piggybacking in the policy/standards tab and the bidding and procurement planning guide). Note an entity could choose to use one set of rules all the time (state, federal or local) if those rules are always more restrictive than the others. Also, the written procedures should not only have a statement along the lines of, "We will follow OSPI's procurement guidance" or "If using federal funds, we will follow the Uniform Guidance". Finally, the procedures should outline when a cost or price analysis is required (anything requiring them to bid; see below for details) and if they use the competitive proposal method, they must have written procedures for those too (2 CFR 200.320(d)).

Auditors are expected to review the procurement procedures based on the documented standard (assuming procurement is material - see policy/standards tab for guidance on materiality). That is, there must be a documented standard for the auditor to audit to, for the transactions that are subject to audit. Auditors must identify and test internal controls that ensure written procedures were in place and were used for the transactions subject to audit. Now that the grace period is over (see policy/standard tab for information on the grace period), all entities are required to comply fully with the procurement standards in the Uniform Guidance.

Written Standards of Conduct (2 CFR 200.318): The entity must have written standards of conduct that cover conflicts of interest and govern the performance of its employees engaged in the selection, award, and administration of contracts/purchases. Note that entities may have more than one entity policy/procedure (e.g. Procurement Policy and Personnel Manual) – so you may need to look in more than one place. Refer to the policy/standards tab for detailed requirements (and information on the expired grace period).

Auditors are expected to review the standards of conduct and identify and test internal controls that ensure written procedures were in place and were used for the transactions subject to audit.



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**Materiality:** Auditors are not expected to select procurement transactions that have an aggregate value (not per unit) less than the micro purchase threshold (federal threshold for which no competition is required).

**Cost or Price Analysis (2 CFR 200.324):** Entities must perform a cost or price analysis in connection with every procurement action in excess of the "**simplified acquisition threshold**" (**which is the *lesser of the entity state/local bid threshold or federal threshold***), including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, an independent estimate must be made before receiving bids or proposals. **Tip:** Check for grantor non-regulatory manuals for guidance on what they determine to be a reasonable analysis, such as the Department of Transportation LAG Manual. Generally, for major projects, this is the engineers estimate. **Note:** if the entity being audited piggybacked, the cost or price analysis would be performed by the lead and the entity should have verified the analysis was performed when applicable.

**Most Restrictive Procurement Standard:** The most restrictive of state, local or federal rules must be followed. When determining which threshold should be used, remember the aggregate cost of like-kind goods, not the per-unit cost, should be used. Refer to policy/standards tab for further info on aggregate vs. per unit cost.

**Simplified Acquisition Threshold (2 CFR 200.88):** The *simplified acquisition threshold* is the dollar amount below which a non-federal entity may purchase property or services using small purchase methods. Non-federal entities adopt small purchase procedures in order to expedite the purchase of items costing less than the simplified acquisition threshold. As noted in the procurement table below, the simplified acquisition threshold is \$150,000, but was increased to \$250,000. **In other words, it is the *lesser of the entity state/local bid threshold or federal threshold of \$150,000 (or \$250,000 effective 6/20/18 if OMB exception documented - see below for further details)***

Use this table to evaluate the rules:

Method	Used for	Thresholds		
		Federal	RCW	Local
Micro Purchase Procedures (not competitive, distribute equitably)	Purchases Services	Under \$3,500 (\$10,000 effective 6/20/18**)	*Auditor to determine from Bidding and Procurement Planning Guide	auditor to determine

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Small Purchase Procedures (price or rate quotations)	Purchases Purchased Services (for routine functions) Personal Services (e.g. consultant) Public Works	Under \$150,000 (\$250,000 effective 6/20/18**)	*Auditor to determine from Bidding and Procurement Planning Guide *Competitive procurement generally not required for Purchased or Personal Services	auditor to determine
Sealed/Formal Bids	Purchases Purchased Services (for routine functions) Personal Services (e.g. consultant) Public Works	\$150,000 or more (\$250,000 effective 6/20/18**)	*Auditor to determine from Bidding and Procurement Planning Guide *Competitive procurement generally not required for Purchased or Personal Services	auditor to determine
Competitive Proposals	Personal Services Purchases	\$150,000 or more (\$250,000 effective 6/20/18**)	*Competitive procurement not required for Personal Services	auditor to determine
Competitive Proposals	Architecture/Engineering	No threshold for A&E *Note: Federal has more requirements than the RCW process with the same name.	No threshold for A&E	auditor to determine
Non-competitive Proposals	Any	No threshold. Only for sole source (RARE), emergency, grantor-authorized, or if competition not adequate.	No threshold. Applies as per the Bidding and Procurement Planning Guide	auditor to determine

**\*\* CHANGE IN THRESHOLDS:**

The Office of Management and Budget (OMB) issued Memorandum M-18-18 on June 20, 2018, which increases the micro-purchase threshold to \$10,000 and the simplified acquisition threshold to \$250,000.

Pursuant to Uniform Guidance, 2 CFR Section 200.102 (Exceptions), OMB may allow exceptions to the Uniform Guidance when not prohibited by statute. OMB is granting an exception by allowing grant recipients to use the higher threshold of \$10,000 for micro-purchases (formerly \$3,500) and \$250,000 for simplified acquisitions (formerly \$150,000) in advance of the revisions to the Uniform Guidance (2 CFR 200) and the Federal

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Acquisition Regulations (FAR at 48 CFR Subpart 2.1).

The effective date is the date the memo was issued, June 20, 2018. Grant recipients should document any change based on this exception in accordance with 2 CFR Section 200.318 (General procurement standards). **In other words, to use these thresholds in its procurements, the entity must incorporate them into its written policies/procedures.**

**HEADS UP** - Revisions to the Uniform Guidance, including revisions to the procurement standards which incorporated the new thresholds, were issued on AUGUST 13, 2020. Revisions are effective November 12, 2020 except for amendments to sections 200.216 and 200.340, which were effective August 13, 2020. It's our understanding that e-CFR will be updated by the effective date of November 12, 2020. Further note that the revisions are not applicable to federal financial assistance awards issued prior to the effective dates provided in the dates section of the Notice of Final Guidance, including financial assistance awards issued prior to those dates under the Coronavirus Aid, Relief, and Economic Support (CARES) Act of 2020 (PL 116-136). OMB plans to consult with applicable agencies to provide regulatory flexibility analyses in future revisions to 2 CFR and its subcomponents. *If you are making recommendations to revise written procurement standards, be sure to communicate this information to your auditees so they have the opportunity to revise them to incorporate the new threshold when applicable (particularly with regard to the new rules for micro-purchase thresholds).* **We will be covering the revisions in our annual Single Audit update training.**

## USE THIS TABLE FOR SCHOOLS PROGRAMS:

Method	Used for	School District Thresholds		
		Federal (2 CFR 200.320)	RCW	Local
Micro Purchase (not competitive, distribute equitably)	Purchases Services	Under \$3,500 (\$10,000 effective 6/20/18**)	Under \$40,000 - no competitive requirements established	auditor to determine
Small Purchase Procedures (price or rate quotations)	Purchases Public Works Purchased Services (for routine functions) Personal Services (e.g. consultant)	Under \$150,000 (\$250,000 effective 6/20/18**)	Between \$40,000 - \$75,000 for Purchases ( <b>with</b> purchase contract process)  Under \$100,000 Public Works ( <b>no</b> small works roster) Under \$300,000 Public Works ( <b>with</b> small works roster)  Competitive procurement <b>not</b> required for Purchased Services	auditor to determine

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Sealed/Formal Bids	Purchases Public Works Purchased Services (for routine functions) Personal Services (e.g. consultant)	\$150,000 or more (\$250,000 effective 6/20/18**)	\$40,000 or more for Purchases ( <b>no</b> purchase contract process) \$75,000 or more for Purchases ( <b>with</b> purchase contract process)  \$100,000 or more Public Works ( <b>no</b> small works roster) \$300,000 or more Public Works ( <b>with</b> small works roster)  Competitive procurement <b>not</b> required for Purchased Services	auditor to determine
Competitive Proposals	Personal Services (e.g. Consultant)	\$150,000 or more (\$250,000 effective 6/20/18**)	Competitive procurement <b>not</b> required for Personal Services	auditor to determine
Competitive Proposals	Architecture/Engineering	No threshold for A&E – <b>but</b> process different from RCW	No threshold for A&E	auditor to determine
Non-competitive Proposals (ex. Sole source)	Any	No threshold. Only for sole source (RARE), emergency, grantor-authorized, or if competition not adequate.		auditor to determine

Case-by-case Information: see the policy tab for additional information about the following topics:

- A. Micro Purchase procedures – overview of rules
- B. Architecture and Engineering proposals – special federal rules (different from state rules)
- C. Small Works Roster – highest cause of findings - see policy standards tab
- D. Sole Source and other Non-Competition – differences between state and federal rules
- E. Interlocal Agreements - transactions between governments are exempt from procurement
- F. Purchasing from a State Agency Contract (through DES) – when the State has performed the procurement process
- G. Piggybacking from Other Governments (except for DES) – special considerations and internal controls
- H. Professional Development – procurement expectations of offsite vs. onsite training

## SUSPENSION AND DEBARMENT (S&D)

## City of Clarkston

[Applies To:](#) Each covered transaction (2 CFR 180.200):

<i>What is a covered transaction?</i>	
Award made to:	Threshold
Subrecipient	No threshold. They must verify S&D for each new subaward.
Contractor (formerly referred to as vendor)	Contracts (including purchase orders) and purchases over \$25,000, paid all or in part with federal funds. Applies to each new contract (or total purchases to one contractor during the audit period for like-kind items).

[Requirement:](#) The entity must complete at least one of the following to verify the other party is not prohibited (excluded) from receiving federal funds during the procurement process or at the time the contract is made:

1. Check their status on the online search engine SAM.gov (and print support)
2. Put a clause in the contract, whereby the signer attests they are not suspended or debarred.
3. Obtain a signed certificate, whereby the signer attests they are not suspended or debarred.

[Case-by-case Information:](#) There is additional information for the auditor when the following situations occur. Find this information in the policy tab as needed:

- I. [Piggybacking and S&D](#) – S&D requirements when using piggy-backing procurement
- J. [POs with S&D Certification Language](#) – ability to use a signed purchase order as S&D certification

### **Step 2: Assess Inherent Risk (IR)**

See steps to assess inherent risk in the Single Audit Planning Guide.

### **Step 3: Gain an Understanding of Internal Controls**

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

- (1) **Written Procurement Procedures:** the entity has established and/or maintained written procurement procedures that

## City of Clarkston

address federal procurement requirements (see the above testing strategy). *If the entity did not have written procurement procedures in place prior to the applicable procurement transactions that occurred during the audit period, or the written procedures do not provide reasonable assurance it will comply with the most restrictive of federal, state, or local requirements, this is an internal control deficiency. See the policy/standards tab for auditor considerations.*

**(2) Written Standards of Conduct that covers conflict of interest:** the entity has established and/or maintained written conflict of interest procedures that address the federal requirements. *If the entity did not have written standards of conduct in place prior to the applicable procurement transactions that occurred during the audit period, this is an internal control deficiency. See the policy/standards tab for auditor considerations.*

For (1) and (2), we expect the auditee updated or established written procedures prior to the expiration date of the grace period. **GRACE PERIOD:** auditee's have a grace period for getting written procedures updated for three full fiscal years after the effective date of UG (12/26/14). See policy/standards tab for further details

In later years, the auditee should review the procedures to make sure they reflect current federal requirements and have a control process to ensure they actually use the policies.

**(3) Procurement:** the most restrictive procurement requirements are followed when procuring goods and services, and cost or price analyses have been performed for procurements exceeding the entities simplified acquisition threshold (see definition above).

**(4) Suspension & Debarment:** contracts (purchases) of \$25,000 or more, paid all or in part with federal funds, and all subrecipients (including other governments) are not suspended or debarred from participating in federal programs.

\*If they use a certificate or contract clause, the key control should focus on a person putting them in the contract or bid documents, reviewing they are included in the contract, or who makes sure they use the boilerplate documents that include them. *Avoid* a control that just states compliance, such as, "the clause is included in the contract."

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### Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:

- (1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
- (2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

**Deficiencies Identified:** Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### Step 5: Test Internal Controls

If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

**Examples:** Refer to the Single Audit Planning Guide for suggestions and examples of control testing.

**Automated Controls:** If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

**Deficiencies Identified:** Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

## City of Clarkston

### Step 7: Assess the Risk of Material Non-Compliance (IR and CR)

The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

### Step 8: Test Compliance

#### PROCUREMENT (reminder, if procurement is not direct and material, you do not have to test policies)

##### 1. [Written Procurement Policy/Procedures](#):

- a. Obtain the entity's written procurement policies/procedures and verify that they comply with the Uniform Guidance requirements as noted in the testing strategy.
- b. Determine if the policy allows the use of statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids or proposals. If so, verify this was not applied to federally funded procurement except where expressly allowed or encouraged by the federal regulations. This can be done as part of testing of #3 for selected transactions by determining if geographical preference was used during the procurement process.

##### 2. [Written Standards of Conduct](#):

Verify that the entity has written standards of conduct/policy covering conflicts of interest for employees, agents, etc. engaged in the selection, award and administration of contracts. The standards must have these elements:

- A. The officers, employees, and agents may not participate in the selection, award, or administration of a contract supported by a Federal award if they have a real *or apparent* conflict of interest.
- B. The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.



## City of Clarkston

C. Must include or disciplinary actions for violations of such standards.

### 3. [Procurement](#):

Select procurement transactions and perform the following procedures (*attached is a template that includes these attributes*):

For sealed bids:

- Verify the contract files document the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price (2 CFR 200.318(i)).
- Verify that the procurement method used was appropriate based on the dollar amount and conditions specified in 2 CFR 200.320 Methods of procurement to be followed (that they used the appropriate threshold).
- Procurements provide full and open competition in accordance with 2 CFR 200.319 Competition.
- Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified (2 CFR 200.319)
- Determine if a cost or price analysis was performed in connection with all procurement actions exceeding the simplified acquisition threshold (**lesser of the entity bid threshold, or \$150,000, or \$250,000 effective 6/20/18 if documented OMB exception**), including contract modifications, and that the analysis supported the procurement action (2 CFR 200.324 Contract cost and price). The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the auditee must make independent estimates before receiving bids or proposals. Note, if the entity piggybacked, determine if it verified the lead performed the analysis when applicable.

For competitive proposals (in addition to above) per 2 CFR 200.320(d):

- Verify requests for proposals were publicized and the entity identified all evaluation factors and their relative importance.
- Verify proposals were solicited from an adequate number of qualified sources.
- Verify the entity has a written method of conducting technical evaluations of the proposals received and for selecting recipients.
- Determine if the contracts were awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

## City of Clarkston

For small purchase procedures (in addition to A-D for sealed bids) per 2 CFR 200.320(b):

- Determine if price or rate quotations were obtained from an adequate number of sources.

### **SUSPENSION AND DEBARMENT**

Select new contracts (including purchases/purchase orders) that exceed \$25,000, paid all or in part with federal funds, and subrecipient agreements (no dollar minimum) and verify the entity performed one of the following during the procurement process or when the contract was made (*attached is a template*):

1. Checked their status on the online search engine SAM.gov (and have support)
2. Put a clause in the contract, whereby the signer attests they are not suspended or debarred.
3. Obtained a signed certificate, whereby the signer attests they are not suspended or debarred.

*Note: If the entity did not check S&D during the procurement process or when the contract was made, there is non-compliance. In evaluating the non-compliance, consider whether the entity checked S&D before or after the first payment to the contractor/subrecipient (did their controls catch it?). Include this information with the Level of Reporting request.*

### **Evaluate the results.**

Guidance/Criteria.*
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**Compliance Supplement for 2020 Part 3 & 6 Excerpt** - an excerpt from Part 3 (Compliance Requirements) and Part 6 (Internal Controls) for the 2020 Compliance Supplement

### **INTERNAL CONTROL UNDERSTANDING**

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

## City of Clarkston

### GRACE PERIOD

COFAR FAQ .110-6 Effective Dates and Grace Period for Procurement \*\*

Will the Federal government provide a grace period after the effective date for non-Federal entities to comply with the procurement standards in the Uniform Guidance?

Yes, in accordance with the Federal Notice published May 17, 2017 (82 FR 22609), a grace period is allowed for **three full fiscal years after the effective date of the Uniform Guidance.**

In general non-Federal entities must comply with the terms and conditions of their Federal award, which will specify whether the Uniform Guidance applies. However, in light of the new procurement standards, for procurement policies and procedures, for the non-Federal entity's first full fiscal year that begins on or after December 26, 2014, the non-Federal entity must document whether it is in compliance with the old or new standard, and must meet the documented standard. For example, the third full fiscal year for a non-Federal entity with a June 30th year end would be the year ending June 30, 2018. The Single Audit Compliance Supplement will instruct auditors to review procurement policies and procedures based on the documented standard. For future fiscal years, all non-Federal entities will be required to comply fully with the uniform guidance.

### AGGREGATE VS. PER-UNIT COST TO DETERMINE THRESHOLD

Note that the cost thresholds are not limited to each individual item purchased. The cost threshold will also apply to many like-kind items. For instance, an entity may purchase 500 tablets over 70 transactions during the year. Each tablet or transaction may be less than \$3,500 or the lowest competitive threshold, but the aggregate purchase of tablets should be the dollar value used to determine which threshold applies. If the 500 tablets cost \$200,000, the grantee should complete formal bidding procedures.

### A. MICRO PURCHASE PROCEDURES

The micro-purchase threshold under the Federal Acquisition Regulations is aggregate cost of \$3,500 (not cost per unit), or \$2,000 for construction contracts subject to the Davis-Bacon Act. Micro purchases under this threshold do not require competition. Effective 6/20/18 the threshold is \$10,000 **if the auditee documents the OMB exception** described in the testing strategy. This is not to be confused with the simplified acquisition threshold (see testing strategy for definition). Although competition is not required, the awardee must equitably distribute these purchases among qualified supplies to the extent practical. **Entities must allow for the micro-purchase threshold in its policies in order to use it.**

### B. ARCHITECTURE AND ENGINEERING PROPOSALS

Notice also that for architecture and engineering (A&E), although both the state rules and the federal rules have no threshold and both processes include competitive proposals, the federal requirements for A&E are more detailed than RCW rules. The federal process must be followed if federal funding is used to pay all or a portion of A&E. The federal rule is (this is not new):

(1) Requests for proposals must be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals must be considered to the maximum extent practical;

## City of Clarkston

- (2) Proposals must be solicited from an adequate number of qualified sources;
- (3) The non-Federal entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients;
- (4) Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and
- (5) The non-Federal entity may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

### C. SMALL WORKS ROSTER

In general, most RCW thresholds are lower than the federal threshold. If an auditee uses the state's small works roster process for public works, they do not perform formal bidding until a project equals or exceeds \$300,000 (or \$350,000 7/28/19). **However**, if federal funds are used to pay for all or a portion of the cost, the auditee must perform formal bidding at the federal threshold of \$150,000 (or \$250k effective 6/20/18 if OMB exception was documented as described in the testing strategy).

### D. SOLE SOURCE AND OTHER NON-COMPETITION

A grantee can declare that competition is not feasible or cannot be obtained and designate a vendor as the sole source of supply or the only service provider. The grantee must keep documentation of how it arrived at this decision before the contract was made. Also, there are less procurement exemptions under the federal rules than under state. For instance, school districts are not required to competitively procure book purchases if using state or local funds, but they must be competitively procured if using federal funds.

**These situations should be very rare. Refer to the Procurement Planning Guide for specific steps required.**

### E. INTERLOCAL AGREEMENTS: Transactions between governments are exempt

When one government uses federal grant funds to pay for professional services provided by another government, it is not expected to obtain quotes or seek competition. If the grantee purchases equipment or other goods directly from another local government, these transactions are exempt from competitive procurement (does not apply to piggy-backing purchases). This is because federal procurement standards (2 CFR section 200.318(e)) encourages governmental entities to enter into interlocal agreements to maximize economy and efficiency. It assumes the economic benefit and efficiency has or will be achieved. RCW 39.34.030 sets forth the standards for interlocal agreements – the form of the agreement or contract may vary so long as it contains the necessary information. This exemption does not include purchases made from a third

## City of Clarkston

party vendor, such as a purchasing co-op, or piggy-backing off another government's bid for equipment, materials or services.

### F. PURCHASING FROM A STATE AGENCY CONTRACT

Some local governments make purchases from contracts that are procured by the WA Dept. of Enterprise Services (DES). In this situation, the DES performs all the bidding requirements and the participating local governments can rely on the bid process and make purchases from the contract. The DES retains all the bid documentation. For controls, the auditor should document how the auditee uses the DES contracts. They should ensure they are paying the same rates as in the DES contract.

Note the entity cannot rely on DES for suspension or debarment compliance. The entity must verify itself the party is not suspended or debarred before it contracts with/purchases from the vendor (regardless if there is a sus/deb clause in the contract between DES and the vendor). The reason is because it is considered a transaction at the next lower tier.

### G. PIGGYBACKING FROM OTHER GOVERNMENTS (except for DES)

If the auditee is piggybacking on procurement performed by another government, even those outside of Washington State, there should be monitoring controls at the local level. The auditee must ensure that the procurement method performed by the principal party meets the most restrictive procurement practices applicable to the auditee. We would expect the auditee to obtain copies of the procurement documents (affidavits of publication, all bids, bid opening, quotes, evaluations for consultants/A&E) to confirm. The auditee must also have a contract/interlocal agreement with the other government in order to piggyback off their contract or procurement process. Note that, in general, piggybacking cannot be used for public works. See additional details in the procurement planning guide and our updated piggybacking guidance found on the [resource database](#).

Note the entity cannot rely on the other government for suspension or debarment compliance. The entity must verify itself the party is not suspended or debarred before it contracts with/purchases from the vendor (regardless if the other government already verified). The reason is because it is considered a transaction at the next lower tier.

### H. PROFESSIONAL DEVELOPMENT

Districts are not expected to use competition when sending an employee to an offsite training class, workshop, or when obtaining college credit.

*However*, if the district hires a third party contractor to come into the district and provide training to district staff, this is a professional service that is subject to procurement.

### I. PIGGYBACKING AND S&D

When an entity piggybacks on the procurement performed by others (state, local or co-op), the entity must verify itself the party is not suspended or debarred before it contracts with/purchases from the vendor (regardless if the other entity already verified). The reason is because it is considered a transaction at the next lower tier.

### J. POs WITH S&D CERTIFICATION LANGUAGE

# City of Clarkston

A vendor’s acceptance of a purchase order with suspension and debarment certification language is sufficient for suspension and debarment requirements (at this time). This has only been confirmed for programs awarded through OSPI. Awards directly from federal grantors or other pass-through agencies could allow this requirement but we would need confirm with them.

Record of Work Done:

## Inherent Risk of Noncompliance

In accordance with AU-C sec. 935, we have considered the following inherent risk factors that apply to this compliance requirement:

- Is the compliance requirement new to the agency or has the requirement changed recently? - **NO**
- Is the compliance requirement considered an area of higher risk in the Compliance Supplement or by oversight agencies? **NO**
- Does the compliance requirement involve a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program? **NO**
- Is there a lack of oversight by the grantor or pass-through agency? **NO**
- Is the compliance requirement relatively complex or are related activities difficult to audit? **NO**
- Are multiple locations or departments responsible for administering the requirement? **NO**
- When assessing the risk of Type A and Type B programs during single audit planning (refer to the risk assessment spreadsheet), did you find that this compliance requirement is one that is susceptible to fraud, theft of assets, or fraudulent reporting of financial or programmatic data to the grantor or public? **NO**

Based on these results, we assessed the inherent risk of noncompliance at **LOW**.

## Key Personnel

- Darren White, Fire Chief
- Michelle Courtney, Fire Chief Administrative Assistant
- Steve Austin, Clerk Treasurer

## Background

We documented the federal, state, and local procurement criteria applicable to the City in the table below:

-

		Thresholds	
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## City of Clarkston

Method	Used for	Federal	RCW (Source Planning Guide - Bidding and Procurement)	Local (Source: Purchasing Policy Resolution No. 2005-04) <u>PBC: 2005-04,</u> <u>Purchasing Policy</u>	Most Restrictive Requirements
Micro Purchase Procedures (not competitive, distribute equitably)	Purchases Services	Under \$3,500 (\$10,000 effective 6/20/18**)	Not applicable. This is a code city.	Under \$7,500 does not require a bid process	Local
Small Purchase Procedures (price or rate quotations)	Purchases Purchased Services (for routine functions) Personal Services (e.g. consultant) Public Works	Under \$150,000 (\$250,000 effective 6/20/18**)		Between \$7,500 and \$15,000 must solicit and obtain quotes	Local
Sealed/Formal Bids	Purchases Purchased Services (for routine functions) Personal Services (e.g. consultant) Public Works	\$150,000 or more (\$250,000 effective 6/20/18**)	Purchases: greater than \$7,500  Public Works: greater than \$40,000	Purchases: greater than \$15,000 Public Works: greater than \$30,000 (single craft) OR greater than \$45,000 (multi-craft)	Purchases - State  Public Works (single craft) - Local  Public Works (multi- craft) - State
Competitive Proposals	Personal Services Purchases	\$150,000 or more (\$250,000 effective 6/20/18**)	*Competitive procurement not required for Personal Services	Personal services not specifically mentioned in policy - competitive negotiation process mentioned for equipment purchases and services  Purchases over \$15,000 must use a	Personal Services - Federal  Purchases - Local

## City of Clarkston

				formal bid process.	
Competitive Proposals	Architecture/Engineering	No threshold for A&E *Note: Federal has more requirements than the RCW process with the same name.	No threshold for A&E	No threshold for A&E - A&E not specifically mentioned in policy but mentions competitive negotiation process in general	Federal
Non-competitive Proposals	Any	No threshold. Only for sole source (RARE), emergency, grantor-authorized, or if competition not adequate.	No threshold. Applies as per the Bidding and Procurement Planning Guide	The City has exemptions for sole source and emergency procurement:  Sole Source arises when the following situations occur: (a) when there is clearly and legitimately only one source capable of supplying the subject matter in a timely fashion (b) when there are special facilities or market conditions that result in only one source (c) in the event of emergencies (d) when there is only one source	Federal



City of Clarkston

				<p>capable of supplying the subject matter in a timely fashion such that seeking competitive bids would be impractical.</p> <p>City council must approve all sole source purchases and adopt a resolution citing the factual basis for the exception to competitive bidding.</p> <p>Emergency situations do not require competitive bidding. An effort should be made to include a practical level of competition. The Mayor and their designee will see a resolution from the Council to emergency purchases that waive competitive requirements.</p>	
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The City procured for the following using a combination of federal Assistance to Firefighters grant funds and local expenditure dollars.

## City of Clarkston

Grant Award	Purchase Description	Vendor	Total	Procurement Method Used	Selected for Testing (Yes / No )
EMW 2018	SCBA Equipment/Breathing Apparatus Attachments, RIT Kit Bag w/ Heat Shield, Kevlar Harness and Breathing Apparatus Equipment, RIT system, equipment safety checks for SCBA and RIT kits	LN Curtis & Sons	210,902.41	Piggyback (RFP - competitive proposal)	Yes
EMW 2018	Mask adaptor	TSI Incorporated	358.28	Micro purchase	No
EMW 2019	Portable radios (radios, radio holders, and operation accessories (wires, charging bases))	Motorola Solutions	167,190.67	Piggyback (RFP - competitive proposal)	Yes
EMW 2019	Radio system training	Day Wireless Systems	1,628.41	Micro purchase	No
EMW 2019	Radio holders	LN Curtis & Sons	1,280.06	Micro purchase	No
EMW 2020	Adapter cartridge for facepiece; respirator cartridges	LN Curtis & Sons	7,070.02	Micro purchase	No
			<b>388,429.85</b>	<i>agrees to federal and local total expenditures combined</i>	

### **Understanding of Internal Controls**

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

We met with Steve Austin, Clerk Treasurer, Darren White, Fire Chief, and Michelle Courtney, Administrative Assistant to gain an understanding of the City's controls to ensure procurement and suspension and debarment requirements are met.

## City of Clarkston

**(1) Written Procurement Procedures:** the entity has established and/or maintained written procurement procedures that address federal procurement requirements.

Departments are expected to follow the City's written procurement policy and procedures established in Resolution 2005-04. Per the Fire Chief, to his knowledge, the City's procurement policy is updated in accordance with current state law. Per the Clerk Treasurer, the City's policy has not been updated since its implementation in May 2005. He is aware the policy needs to be updated, but stated due to other demands and restrictions of COVID-19, it has not been updated. Consequently, the City has not established or maintained written procurement procedures that fully conform to federal procurement requirements.

**(2) Written Standards of Conduct that covers conflict of interest:** the entity has established and/or maintained written conflict of interest procedures that address the federal requirements.

The Clerk Treasurer stated the City's written conflict of interest procedures are included as part of the City's Employee Handbook, which was last revised in 2016 per Resolution 2016-11. Conflict of interest procedures were not re-visited due to other demands and restrictions of COVID-19. Consequently, the City has not established or maintained written conflict of interest procedures that conform to federal requirements.

**(3) Procurement:** the most restrictive procurement requirements are followed when procuring goods and services, and cost or price analyses have been performed for procurements exceeding the entities simplified acquisition threshold.

Neither the current Fire Chief or Administrative Assistant were employed by the City at the time the procurements were authorized. Per the Clerk Treasurer, the former Fire Chiefs (Steve Cooper and Ryan Baskett) were responsible for the procurement of goods provided by LN Curtis & Sons and Motorola Solutions. For efficiency purposes, the Fire Chiefs searched for goods available for purchase through state and national purchasing cooperatives. The Fire Chiefs were able to obtain goods from the Washington Department of Enterprise Services (DES) and National Purchasing Partners Government (NPPGov). The Fire Chiefs confirmed the City had established interagency agreements with both DES and NPPGov. In addition, the Fire Chiefs obtained documentation from DES and NPPGov to support a cost-price analysis and applicable procurement requirements were followed. This information is retained in grant folders maintained by the current and former (Jessica Broemmeling) Administrative Assistant.

**(4) Suspension & Debarment:** contracts (purchases) of \$25,000 or more, paid all or in part with federal funds, and all subrecipients (including other governments) are not suspended or debarred from participating in federal programs.

As noted above, Neither the current Fire Chief or Administrative Assistant were employed by the City at the time the procurements were authorized. The Clerk Treasurer mentioned he had verbal discussions with the former Fire Chiefs (Steve Cooper and Ryan Baskett) and the previous Administrative Assistant (Jessica Broemmeling) to confirm vendors were not suspended, debarred, or otherwise restricted from participating in our purchases or receiving grant funding as payment. Since these were verbal discussions, the Clerk Treasurer did not have documentation to support suspension and debarment statuses were verified. The current Fire Chief and Administrative Assistant

## City of Clarkston

were also not able to identify suspension and debarment verification checks within the grant folder. In addition, the City did not obtain a contract or signed certificate from LN Curtis & Sons and Motorola Solutions.

### **Key Controls:**

Based on our understanding, we identified the following key controls over procurement and suspension and debarment:

**Key Control (Procurement - Piggyback):** The former Fire Chiefs entered into interlocal agreements with state and national purchasing cooperatives and retained the purchasing cooperatives' procurement documentation to support the most restrictive procurement requirements were followed when procuring goods.

We did not identify key control(s) to ensure the following requirements are met:

- Written procurement procedures: The City has not updated its procurement policy since 2005 due to other demands and COVID-19 restrictions, although they are aware it needs to be updated to comply with federal procurement requirements.
- Written Standards of Conduct that covers conflict of interest: The City has not updated its employee handbook, which covers conflict of interest policies, since 2016, although they are aware it needs to be updated to comply with federal procurement requirements.
- Suspension and debarment: The Clerk Treasurer received verbal approval from the former Fire Chiefs that suspension and debarment was verified. However, the City does not have documentation to support suspension and debarment was verified either through a signed contract, certificate, or search engine (SAM.gov) check.

### **Evaluation of Results:**

Did you identify any control deficiencies? **Yes.**

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole.

We used the decision matrix below and determined the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance on the program as a whole is material.

Decision Matrix for Single Audit Internal Control Deficiencies		
Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	Material
Remote	Control deficiency	Control deficiency

## City of Clarkston

	(Control risk is LOW)	(Control risk is LOW)
<b>More than Remote (at least reasonably possible)</b>	<p><b>If the deficiency does not meet the criteria below for a significant deficiency:</b></p> <p style="text-align: center;">Control deficiency</p> <p><b>(Control risk is LOW)</b></p>	<p><b>Assess control risk as HIGH and report a finding for a Material Weakness if the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance of 10% or more of total grant expenditures (quantitative) OR the non-monetary activity (quantitative) (refer to Note 1 below)</b></p>
	<p><b>Assess control risk as HIGH and report a finding for a Significant Deficiency if:</b></p> <p>(1) the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance between 5%-10% of total grant expenditures (quantitative) OR the non-monetary activity (quantitative) (refer to Note 1 below), and</p> <p>(2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken (qualitative). (Refer to Note 2 below.)</p>	

2. Document the rationale for a LOW or HIGH risk assessment.

**We assess the control risk as HIGH.**

## City of Clarkston

- Written procurement procedures: The City has not updated its procurement policy since 2005 due to other demands and COVID-19 restrictions, although they are aware it needs to be updated to comply with federal procurement requirements. Specifically, we noted the policy does not include procurement procedures for using the piggyback method, which is the procurement method applicable to our audit period. The City did not dedicate the necessary time and resources to research, implement, and maintain its written procurement procedures to conform with federal standards.
- Written Standards of Conduct that covers conflict of interest: The City has not updated its employee handbook, which covers conflict of interest policies, since 2016, although they are aware it needs to be updated to comply with federal procurement requirements. The City did not dedicate the necessary time and resources to research, implement, and maintain its written standards of conduct procedures to conform with federal standards.
- Suspension and debarment: The Clerk Treasurer received verbal approval from the former Fire Chiefs that suspension and debarment was verified. However, the City does not have documentation to support suspension and debarment was verified either through a signed contract, certificate, or search engine (SAM.gov) check.

### **Preliminary Control Risk Assessment**

Based on our understanding of key internal controls, we assess preliminary control risk at:

Procurement **HIGH**

Suspension and Debarment **HIGH**

### **Internal Control Testing**

**Key Control (Procurement - Piggyback):** The former Fire Chiefs entered into interlocal agreements with state and national purchasing cooperatives and retained the purchasing cooperatives' procurement documentation to support the most restrictive procurement requirements were followed when procuring goods.

Dual purpose testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We tested the following purchases procured using the piggyback method.

Grant Award	Purchase Description	Vendor	Lead Agency	Total	Procurement Method Used
EMW 2018	SCBA Equipment/Breathing Apparatus Attachments, RIT Kit Bag w/ Heat Shield, Kevlar Harness and Breathing Apparatus Equipment, RIT system, equipment safety checks for SCBA and RIT kits	LN Curtis & Sons	DES	210,902.41	Piggyback (competitive proposal)

## City of Clarkston

EMW 2019	Portable radios (radios, radio holders, and operation accessories (wires, charging bases))	Motorola Solutions	Public Procurement Authority	167,190.67	Piggyback (competitive proposal)
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Michelle provided us with the interagency agreements with DES and NPPGov. Additionally, she provided us with the lead agency's procurement documents to support a cost-price analysis and applicable procurement requirements were followed. We confirmed the City entered into an interagency agreement with DES and DES provided sufficient documentation to support its cost-price analysis and competitive proposal process. Although the City provided interagency agreements from NPPGov and PPA, these were template documents and did not mention City of Clarkston, were not signed and did not comply with the requirements of RCW 39.34.030. Also, per our review of the competitive proposal documents, we determined the lead public agency was not NPPGov, but the Public Procurement Authority (PPA), since it was the lead awarding agency that awarded the proposal and contracted with LN Curtis. The City did not enter into a valid signed agreement with PPA before the purchase as state law requires and was therefore required to comply with competitive procurement requirements. We confirmed this requirement in a meeting with the following members from SAO: Al Rose, Tina Watkins, Alisha Shaw, Kristen Harris and Kelsey Kulbeth on 3/9/22. The interlocal agreement must be established with the lead awarding agency before the purchase, even if the lead agency is contracted with the purchasing cooperative and the local government is a member of that cooperative. Documentation supports a competitive proposal was performed that meets the City's competitive procurement requirements, but the City did not obtain documentation to support a cost-price analysis was performed by PPA. The City also did not perform its own cost-price analysis.

We determined this key control is not in place or operating effectively to ensure procurement requirements are met. See dual purpose testing at [\[I - Procurement and Suspension & Debarment Testing\]](#).

### Evaluation of Results:

Did you identify any control deficiencies? **Yes.**

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole.

We used the decision matrix below and determined the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance on the program as a whole is material.

Decision Matrix for Single Audit Internal Control Deficiencies		
Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	Material
Remote	Control deficiency	Control deficiency

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	(Control risk is LOW)	(Control risk is LOW)
<b>More than Remote (at least reasonably possible)</b>	<p>If the deficiency does not meet the criteria below for a significant deficiency:</p> <p style="text-align: center;">Control deficiency</p> <p style="text-align: center;"><b>(Control risk is LOW)</b></p>	<p><b>Assess control risk as HIGH and report a finding for a Material Weakness if</b> the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance of 10% or more of total grant expenditures (quantitative) OR the non-monetary activity (quantitative) (refer to Note 1 below)</p>
	<p><b>Assess control risk as HIGH and report a finding for a Significant Deficiency if:</b></p> <p>(1) the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance between 5%-10% of total grant expenditures (quantitative) OR the non-monetary activity (quantitative) (refer to Note 1 below), and</p> <p>(2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken (qualitative). (Refer to Note 2 below.)</p>	

2. Document the rationale for a LOW or HIGH risk assessment.

We assess the control risk as HIGH.



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- Written procurement procedures: The City has not updated its procurement policy since 2005 due to other demands and COVID-19 restrictions, although they are aware it needs to be updated to comply with federal procurement requirements. Specifically, we noted the policy does not include procurement procedures for using the piggyback method, which is the procurement method applicable to our audit period. The City did not dedicate the necessary time and resources to research, implement, and maintain its written procurement procedures to conform with federal standards.
- Written Standards of Conduct that covers conflict of interest: The City has not updated its employee handbook, which covers conflict of interest policies, since 2016, although they are aware it needs to be updated to comply with federal procurement requirements. The City did not dedicate the necessary time and resources to research, implement, and maintain its written standards of conduct procedures to conform with federal standards.
- Suspension and debarment: The Clerk Treasurer received verbal approval from the former Fire Chiefs that suspension and debarment was verified. However, the City does not have documentation to support suspension and debarment was verified either through a signed contract, certificate, or search engine (SAM.gov) check.
- Procurement: The City purchased goods using contracts awarded by another government or group of governments via interagency agreements (piggybacking). To comply with this law, the City must enter into an agreement with the lead agency before it purchases goods from the lead agency's bid contract. The City did not enter into an interagency agreement with PPA as state law requires. In addition, the City did not obtain documentation to support a cost-price analysis was performed by PPA. The City also did not perform its own cost-price analysis. The City believed it entered into an interagency agreement with the lead agency. In addition, the City did not retain documentation to support a cost or price analysis was performed by the lead agency.

### **Final Control Risk Assessment**

We assess final control risk at:

Procurement **HIGH**

Suspension and Debarment **HIGH**

### **Risk of Material Noncompliance**

We assess the risk of material noncompliance at:

Procurement **HIGH**

Suspension and Debarment **HIGH**

### **Compliance Testing**

#### **PROCUREMENT**

##### 1. [Written Procurement Policy/Procedures](#):

- a. Obtain the entity's written procurement policies/procedures and verify that they comply with the Uniform Guidance requirements as noted in

## City of Clarkston

the testing strategy.

We obtained the City's written procurement policy [PBC: 2005-04, Purchasing Policy] and determined it did not comply with Uniform Guidance requirements. Specifically, the policy did not:

- include documented procedures and thresholds for piggybacking (2 CFR 200.317 through 200.327), particularly given that state law procedures are contrary to the federal procedures. The City must ensure that the procurement method performed by the principal party meets the most restrictive procurement practices applicable to the City. We would expect the City to obtain copies of the procurement documents (affidavits of publication, all bids, bid opening, quotes, evaluations for consultants/A&E) to confirm. The City must also have a contract/interlocal agreement with the other government in order to piggyback off their contract or procurement process.
- outline when a cost or price analysis is required (2 CFR 200.324). Cities must perform a cost or price analysis in connection with every procurement action in excess of the simplified acquisition threshold, including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, an independent estimate must be made before receiving bids or proposals. In addition, the City used the piggybacking method. As such, written procedures should also document that the cost or price analysis would be performed by the lead and the City should have verified the analysis was performed when applicable.

b. Determine if the policy allows the use of statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids or proposals. If so, verify this was not applied to federally funded procurement except where expressly allowed or encouraged by the federal regulations. This can be done as part of testing of #3 for selected transactions by determining if geographical preference was used during the procurement process.

### 2. Written Standards of Conduct:

Verify that the entity has written standards of conduct/policy covering conflicts of interest for employees, agents, etc. engaged in the selection, award and administration of contracts. The standards must have these elements:

- A. The officers, employees, and agents may not participate in the selection, award, or administration of a contract supported by a Federal award if they have a real *or apparent* conflict of interest.
- B. The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.
- C. Must include or disciplinary actions for violations of such standards.

We obtained the City's written standards of conduct/policy covering conflicts of interest [PBC: City of Clarkston Conflict of Interest Policy] and determined it did not comply with Uniform Guidance requirements. Specifically, the policy did not address the following:

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- The officers, employees, and agents may not participate in the selection, award, or administration of a contract supported by a Federal award if they have a real *or apparent* conflict of interest. The City's policy states, "Employees are expected to represent the City of Clarkston in a positive and ethical manner. Thus, employees have an obligation to avoid conflicts of interest and to refer questions and concerns about potential conflicts to their supervisor". The policy does not address conflicts of interest specifically related to participating in contracts.
- The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. The City's policy states, "Employees and their immediate family may not accept gifts, except those of nominal (i.e., less than \$20.00) value, or any special discounts or loans from any person or firm doing, or seeking to do, business with the City of Clarkston. The meaning of gifts for purposes of this policy includes the acceptance of entertainment and free travel and lodging." The policy allows employees and their immediate families to accept gifts of less than \$20.

### 3. Procurement:

Dual purpose testing: To determine if the City is in compliance with procurement requirements, we performed dual purpose testing in conjunction with our internal control testing. We tested the following purchases procured using the piggyback method.

Grant Award	Purchase Description	Vendor	Lead Agency	Total	Procurement Method Used
EMW 2018	SCBA Equipment/Breathing Apparatus Attachments, RIT Kit Bag w/ Heat Shield, Kevlar Harness and Breathing Apparatus Equipment, RIT system, equipment safety checks for SCBA and RIT kits	LN Curtis & Sons	DES	210,902.41	Piggyback (competitive proposal)
EMW 2019	Portable radios (radios, radio holders, and operation accessories (wires, charging bases))	Motorola Solutions	Public Procurement Authority	167,190.67	Piggyback (competitive proposal)

Select procurement transactions and perform the following procedures:

Michelle provided us with the interagency agreements with DES and NPPGov. Additionally, she provided us with the lead agency's procurement documents to support a cost-price analysis and applicable procurement requirements were followed. We reviewed the documents and tested for the following attributes:

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For competitive proposals (in addition to above) per 2 CFR 200.320(d) [through the piggyback method](#):

- Verify the contract files document the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price (2 CFR 200.318(i)).
- Verify that the procurement method used was appropriate based on the dollar amount and conditions specified in 2 CFR 200.320 Methods of procurement to be followed (that they used the appropriate threshold).
- Procurements provide full and open competition in accordance with 2 CFR 200.319 Competition.
- Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified (2 CFR 200.319)
- Determine if a cost or price analysis was performed in connection with all procurement actions exceeding the simplified acquisition threshold (lesser of the entity bid threshold, or \$150,000, or \$250,000 effective 6/20/18 if documented OMB exception), including contract modifications, and that the analysis supported the procurement action (2 CFR 200.324 Contract cost and price). The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the auditee must make independent estimates before receiving bids or proposals. Note, if the entity piggybacked, determine if it verified the lead performed the analysis when applicable.
- Verify requests for proposals were publicized and the entity identified all evaluation factors and their relative importance.
- Verify proposals were solicited from an adequate number of qualified sources.
- Verify the entity has a written method of conducting technical evaluations of the proposals received and for selecting recipients.
- Determine if the contracts were awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.
- [Grantee has a contract/interlocal agreement with the other government in order to piggyback off their contract or procurement process.](#)

[We confirmed the City entered into an interagency agreement with DES and DES provided sufficient documentation to support its cost-price analysis and competitive proposal process that met the City's procurement requirements.](#)

[However, the City did not enter into a valid signed interlocal agreement with PPA, which was the lead awarding agency of the LN Curtis contract. Therefore, it was not allowed to purchase off the contract and was instead required to perform its own competitive solicitation process. Documentation supports a competitive proposal was performed by PPA that complies with the City's procurement requirements, but the City did not obtain documentation to support a cost-price analysis was performed by PPA. The City also did not perform its own cost-price analysis. We determined the City is not in compliance with procurement requirements. See dual purpose testing at \[I - Procurement and Suspension & Debarment Testing\].](#)

### **SUSPENSION AND DEBARMENT**

Select new contracts (including purchases/purchase orders) that exceed \$25,000, paid all or in part with federal funds, and subrecipient agreements (no dollar minimum) and verify the entity performed one of the following during the procurement process or when the contract was made (***attached is a template***):

1. Checked their status on the online search engine SAM.gov (and have support)

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2. Put a clause in the contract, whereby the signer attests they are not suspended or debarred.
  3. Obtained a signed certificate, whereby the signer attests they are not suspended or debarred.
- While the City can rely on most of the bidding procedures conducted by DES and PPA, the City must conduct their own S&D verification. The Clerk Treasurer received verbal confirmation from the Fire Chiefs, who no longer work at the City, that suspension and debarment was verified. However, the City does not have documentation to support suspension and debarment was verified either through a signed contract, certificate, or search engine (SAM.gov) check. We conducted our own search using SAM.gov and noted that LN Curtis & Sons and Motorola Solutions are not suspended or debarred. Therefore, we are not questioning costs. See testing at [\[I - Procurement and Suspension & Debarment Testing\]](#).

### Evaluation of Results:

Did you identify any noncompliance? **Yes.**

If so, **you must:**

1. Determine and document the magnitude of the noncompliance on the program as a whole.

We used the decision matrix below and determined the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance on the program as a whole is material.

Decision Matrix for Single Audit Internal Control Deficiencies		
Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	Material
Remote	Control deficiency  (Control risk is LOW)	Control deficiency  (Control risk is LOW)
More than Remote (at least reasonably possible)	If the deficiency does not meet the criteria below for a significant deficiency:  Control deficiency  (Control risk is LOW)	Assess control risk as HIGH and report a finding for a Material Weakness if the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance of 10% or more of total grant expenditures (quantitative) OR the non-monetary activity (quantitative) (refer to Note 1 below)
	Assess control risk as HIGH and report a finding for a Significant Deficiency if:	

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	<p>(1) the control deficiency(ies) did, or could (refer to Note 3 below), lead to noncompliance between 5%-10% of total grant expenditures (quantitative) OR the non-monetary activity (quantitative) (refer to Note 1 below), and</p> <p>(2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken (qualitative). (Refer to Note 2 below.)</p>	
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### 2. Document the reason for the noncompliance.

- Written procurement procedures: The City has not updated its procurement policy since 2005 due to other demands and COVID-19 restrictions, although they are aware it needs to be updated to comply with federal procurement requirements. Specifically, we noted the policy does not include procurement procedures for using the piggyback method, which is the procurement method applicable to our audit period. The City did not dedicate the necessary time and resources to research, implement, and maintain its written procurement procedures to conform with federal standards.
- Written Standards of Conduct that covers conflict of interest: The City has not updated its employee handbook, which covers conflict of interest policies, since 2016, although they are aware it needs to be updated to comply with federal procurement requirements. The City did not dedicate the necessary time and resources to research, implement, and maintain its written standards of conduct procedures to conform with federal standards.
- Suspension and debarment: The Clerk Treasurer received verbal approval from the former Fire Chiefs that suspension and debarment was verified. However, the City does not have documentation to support suspension and debarment was verified either through a signed contract, certificate, or search engine (SAM.gov) check.

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- Procurement: The City purchased goods using contracts awarded by another government or group of governments via interagency agreements (piggybacking). To comply with this law, the City must enter into an agreement with the lead agency before it purchases goods from the lead agency's bid contract. The City did not enter into an interagency agreement with PPA. In addition, the City did not obtain documentation to support a cost-price analysis was performed by PPA. The City also did not perform its own cost-price analysis. The City believed it entered into an interagency agreement with the lead agency. In addition, the City did not retain documentation to support a cost or price analysis was performed by the lead agency.
3. Consider whether additional testing is needed to provide reasonable assurance of detecting material noncompliance (e.g. is the risk of material noncompliance increased for the activities or costs that you did not test?).
- No additional testing is needed to provide reasonable assurance of detecting material noncompliance. We tested the entire population of procurement activities.
4. Reassess the final control risk. Generally, noncompliance is the result of a control deficiency; therefore, it is necessary to reconsider the effectiveness of the internal controls.
- We continue to assess the final control risk as HIGH.
- Written procurement procedures: The City's written procurement policy did not comply with Uniform Guidance requirements. Specifically, the policy did not:
    - include documented procedures and thresholds for piggybacking (2 CFR 200.317 through 200.327), particularly given that state law procedures are contrary to the federal procedures. The City must ensure that the procurement method performed by the principal party meets the most restrictive procurement practices applicable to the City. We would expect the City to obtain copies of the procurement documents (affidavits of publication, all bids, bid opening, quotes, evaluations for consultants/A&E) to confirm. The City must also have a contract/interlocal agreement with the other government in order to piggyback off their contract or procurement process.
    - outline when a cost or price analysis is required (2 CFR 200.324). Cities must perform a cost or price analysis in connection with every procurement action in excess of the simplified acquisition threshold, including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, an independent estimate must be made before receiving bids or proposals. In addition, the City used the piggybacking method. As such, written procedures should also document that the cost or price analysis would be performed by the lead and the City should have verified the analysis was performed when applicable.
  - Written standards of conduct: The City's written standards of conduct/policy did not comply with Uniform Guidance requirements, Specifically, the policy did not address the following:
    - The officers, employees, and agents may not participate in the selection, award, or administration of a contract supported by a Federal award if they have a real *or apparent* conflict of interest. The City's policy states, "Employees are expected to represent the City of Clarkston in a positive and ethical manner. Thus, employees have an obligation to avoid conflicts

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of interest and to refer questions and concerns about potential conflicts to their supervisor". The policy does not address conflicts of interest specifically related to participating in contracts.

- The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. The City's policy states, "Employees and their immediate family may not accept gifts, except those of nominal (i.e., less than \$20.00) value, or any special discounts or loans from any person or firm doing, or seeking to do, business with the City of Clarkston. The meaning of gifts for purposes of this policy includes the acceptance of entertainment and free travel and lodging." The policy allows employees and their immediate families to accept gifts of less than \$20.
- Suspension and debarment: The City did not retain documentation to support suspension and debarment status was verified for 2 of 2 vendors. This makes up 100% of the population, 99.9% (or \$369,264) of total grant expenditures. We verified all vendors were not suspended or debarred, therefore we are not questioning costs.
- Procurement: Per our review of the competitive proposal documents, we determined the lead public agency was Public Procurement Authority (PPA). The City did not enter into a valid signed agreement with PPA before the purchase as state law requires. Documentation supports a competitive proposal was performed, but the City did not obtain documentation to support a cost-price analysis was performed by PPA. The City also did not perform its own cost-price analysis. This makes up 50% of the population and 56.1% (or \$207,359) of total grant expenditures.

### D.1.PRG - Assistance to Firefighters Grant - 97.044

*Procedure Step:* L. Reporting  
*Prepared By:* AR, 11/17/2021  
*Reviewed By:* AMS, 3/4/2022

Purpose/Conclusion.\*

#### **Purpose:**

To determine if internal controls provide reasonable assurance that applicable reporting requirements are met and to test compliance with those requirements.

#### **Conclusion:**



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We determined internal controls **do** provide reasonable assurance that applicable **Reporting** requirements are met, and tested compliance with those requirements.

Based on our testing, we identified the following **control deficiencies**, **questioned costs**, and/or **noncompliance**, which we carried to the Major Federal Program worksheet [[Major Federal Program - Local teams](#)]:

- **NONE**

### Testing Strategy:

Perform the following steps:

1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

### Step 1: Read and Gather Information

Identify Requirements: Review the following to identify the reports that apply to the award (financial, performance, or special):

1. The Compliance Supplement, Part 4, for the audited program (**note: For purposes of programs included in parts 4 and 5 of the Compliance Supplement, the designation "Not Applicable" in relation to "Financial Reporting (which includes requests for advance or reimbursement)," "Performance Reporting," and "Special Reporting" means that the auditor is not expected to audit anything in these categories, whether or not award terms and conditions may require such reporting**)

*Also note that sometimes reporting requirements are only applicable at the State or pass-through level. If that's the case, be sure to document your rationale, how you determined the reporting requirement is not applicable at the local or subrecipient level. If you are unsure or we need confirmation, either have the entity reach out to its awarding agency to confirm or contact the Single Audit Specialist via the HelpDesk.*

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### **AUDITOR NOTE: Per the Addendum to the 2020 Compliance Supplement:**

#### **Federal Funding Accountability and Transparency Act (FFATA)**

**Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act) that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements who make first tier subawards of \$25,000 or more are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).**

**For all COVID-19 programs included in the addendum, with the exception of the Coronavirus Relief Fund, in which the reporting type of compliance requirement is marked as a Y in the Part 2 Matrix of Compliance Requirements indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 (*referring to the Transparency Act*) using the guidance in this section (*referring to 3-L of the 2020 Compliance Supplement Addendum*) when the auditor determines reporting to be direct and material and the recipient makes first tier awards.**

**In addition, for audits of fiscal year ends after September 30, 2020, the requirement in the previous paragraph is extended to all selected major programs, regardless of whether COVID-19 funding is involved. That is, for all major programs in which the Part 2 matrix is marked as Y for the reporting type of compliance requirement, auditors must test compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines reporting to be direct and material and the recipient makes first tier subawards. This testing is in addition to other financial, performance, or special reporting requirements that may be identified in parts 3 (section 3.L), 4, and 5. This requirement also extends to major programs not included in the 2020 *Compliance Supplement* when the auditors determine reporting to be direct and material and the recipient makes first-tier subawards.**

2. Awarding documents.
3. Any available program guides or handbooks (for example the WSDOT's [LAG manual](#) for Highway Planning and Construction Cluster)

### **Step 2: Assess Inherent Risk (IR)**

See steps to assess inherent risk in the Single Audit Planning Guide.

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## Step 3: Gain an Understanding of Internal Controls

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

- (a) Financial Reporting - Financial reports include all activity of the reporting period, are supported by appropriate records, and fairly presented;
- (b) Performance & Special Reporting- Reports are completed and include all required elements and those elements are accurate or supported.

***CAUTION: Be sure to read the auditor note above regarding the applicability of FFATA reporting requirements.***

## Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as "**low**" when:

- (1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or
- (2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

**Deficiencies Identified**: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

## Step 5: Test Internal Controls

If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

**Examples**: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.

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## City of Clarkston

Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the “Major Federal Program” spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

### **Step 6: Assess Final Control Risk (CR)**

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a “significant deficiency” or “material weakness.”

### **Step 7: Assess the Risk of Material Non-Compliance (IR and CR)**

The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

### **Step 8: Test Compliance**

***CAUTION: Be sure to read the auditor note above regarding the applicability of FFATA reporting requirements. If applicable, read and use Part 3, L. Reporting, of the Addendum to the 2020 Compliance Supplement to test compliance with FFATA.***

### **FINANCIAL REPORTS**

Selection: If there are multiple financial reports of the same type, such as reimbursement requests, select some using the small population selection table in the policy tab. If reports are less than quarterly, such as project end reports, select all of them.

1. Support:

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Trace the amounts reported to the auditee's accounting records or other appropriate supporting documentation

2. [Accuracy](#):

Test mathematical accuracy of reports and supporting worksheets and prepared in accordance with the required basis of accounting

3. [Completeness](#):

Test the selected reports for completeness. Review accounting records and ascertain if all applicable accounts, activity, netting items were included in the selected reports (e.g., program income, applicable credits, loans, interest earned on Federal funds, and reserve funds).

For any discrepancies noted in SF-425 reports concerning cash status when advance payment method is used, review subsequent SF-425 reports to ascertain if the discrepancies were appropriately resolved with the applicable payment system.

### **PERFORMANCE & SPECIAL REPORTS**

[Selection](#): If there are multiple performance or special reports of the same type, select some using the small population selection table in the policy tab. If reports are less than quarterly, such as project end reports, select all of them.

1. [Support](#):

Trace the data reported to the grantee's records and supporting documentation.

2. [Accuracy](#):

Test mathematical accuracy of reports and supporting worksheets

3. [Prescribed Format](#):

Verify that the data was accumulated and summarized in accordance with the granting agency's criteria or using their required templates.

4. [Completeness](#):

Test the selected reports for completeness. Review supporting records and ascertain if all applicable data elements were included in the tested reports.

### **Evaluate the results.**

## City of Clarkston

Guidance/Criteria:

[Compliance Supplement for 2020 Part 3 & 6 Excerpt](#) - an excerpt from Part 3 (Compliance Requirements) and Part 6 (Internal Controls) for the 2020 Compliance Supplement

### INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

### SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

**a. For populations of 365 or less, auditors may use the following table:**

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
<i>Formula (rounded up) where N = population size</i>	$N * 1 / \text{SQRT}(N) * 0.68$	$N * 1 / \text{SQRT}(N)$	$N * 1 / \text{SQRT}(N) / 0.68$
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done:

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## **Inherent Risk of Noncompliance**

In accordance with AU-C sec. 935, we have considered the following inherent risk factors that apply to this compliance requirement:

- Is the compliance requirement new to the agency or has the requirement changed recently? - **NO**
- Is the compliance requirement considered an area of higher risk in the Compliance Supplement or by oversight agencies? **NO**
- Does the compliance requirement involve a relatively large degree of subjectivity by the agency in interpreting and carrying out the objectives of the program? **NO**
- Is there a lack of oversight by the grantor or pass-through agency? **NO**
- Is the compliance requirement relatively complex or are related activities difficult to audit? **NO**
- Are multiple locations or departments responsible for administering the requirement? **NO**
- When assessing the risk of Type A and Type B programs during single audit planning (refer to the risk assessment spreadsheet), did you find that this compliance requirement is one that is susceptible to fraud, theft of assets, or fraudulent reporting of financial or programmatic data to the grantor or public? **NO**

Based on these results, we assessed the inherent risk of noncompliance at **LOW**.

## **Key Personnel**

Darren White, Fire Chief

Michelle Courtney, Administrative Assistant

Steve Austin, Clerk Treasurer

## **Understanding of Internal Controls**

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

We reviewed the AFG grant agreement and FEMA's Notices of Funding Opportunity (NOFO) to determine the financial and performance reports required to be submitted by the City:

- (a) Financial Reporting - Financial reports include all activity of the reporting period, are supported by appropriate records, and fairly presented;
  - Requests for Funds (reimbursement requests)
  - Semi-Annual SF-425 Federal Financial Report: Recipients of AFG grants are required to submit a Federal Financial Report (SF-425) on a semi-annual basis. The FFR is to be submitted using the online eGrants system based on the calendar year beginning with the period after the award is made. Grant recipients are required to submit an FFR throughout the entire period of performance of the grant. Reports are due:

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- No later than July 30 (for the period January 1 – June 30)
- No later than January 30 (for the period July 1 – December 31)
- Within 90 days after the end of the Period of Performance

Michelle Courtney, Administrative Assistant reached out to FEMA during the audit and determined there were no AFG grants that required the City to submit SF-425 federal financial reports in fiscal year 2020 because the first ever FFR/SF-425 deployment in FEMA GO was available for grant recipients to complete and submit for the reporting period ending June 30, 2021. Although the City is required to submit reports semi-annually, the functionality in FEMA GO was not available for recipients to submit them. See correspondence here: [PBC: FEMA SF-425 Exemption](#) and [PBC: PPR and FFR delay](#)

- (b) Performance & Special Reporting- Reports are completed and include all required elements and those elements are accurate or supported.
- Semi-Annual Performance Report: The recipient is responsible for completing and submitting a programmatic Performance Report using the eGrants system. The programmatic Performance Report is due every six months after the grant's award date, and thereafter until the award is closed out.

The PPR should include the following:

- a brief narrative of overall project(s) status
- a summary of project expenditures
- a description of any potential issues that may affect project completion

Michelle Courtney, Administrative Assistant reached out to FEMA during the audit and determined there were no AFG grants that required the City to submit program performance reports in fiscal year 2020 because the functionality in FEMA GO was not available for recipients to submit them. See correspondence here: [PBC: FEMA Correspondence for PPR Exemption](#) and [PBC: PPR and FFR delay](#)

**Therefore, we will focus our review on request for funds (reimbursement requests) only.**

### (a) Financial Reporting - Request for Funds (Reimbursement Requests):

We met with Administrative Assistant, Michelle Courtney, to gain an understanding of the City's process to ensure financial reporting compliance requirements are met. As noted in the cash management section [[C. Cash Management](#)], the grant allows the City to request for cash advance, cost reimbursement (incurred expenses that are not paid at the time of the request), and true cost reimbursement (incurred expenses that are paid prior to the request). The City used both the cash advance and pseudo-cost reimbursement methods (costs are incurred but may not be paid prior to requesting reimbursement) during the audit period.

The Fire Chief initiates all purchases on account with the vendor. The vendor sends invoices or quotes to the Fire Department. Each invoice or



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quote is reviewed by the Fire Chief and are collected within a folder in the Fire Department's office. The Fire Chief indicates on each invoice or quote to which grant the expenditure will be charged. The Administrative Assistant keeps a physical file for each grant award to store each applicable invoice or quote.

The Administrative Assistant was responsible for submitting the Request for funds (reimbursement requests) via the FEMA.GO website. The reimbursement request is based on invoices and quotes reviewed and approved by the Fire Chief. She requests the cash advance and/or reimbursement request by review the grant award obligating documents and reporting the dollar amounts listed on the approved invoices and quotes to ensure only allowable costs are requested for reimbursement, that no more than the maximum award amount is requested for payment, and requests are made for the City's immediate needs. The Administrative Assistant records the local match, federal share amount requested, period of performance covered by the request, and the City's "payee" information. She also attaches the invoices and quotes to further confirm the reimbursement requests are mathematically accurate, supported, and complete (**Key Control #1**). The City submitted four reimbursement requests during the audit period. Once the request for funds is submitted, FEMA reviews the request and responds with an approval or denial. FEMA also sends the City an email notification to confirm the requested funds will be remitted to the City's bank account within 3-5 business days.

### Key Control:

Based on our understanding, we identified the following key controls over financial reporting:

**Key Control #1: The Administrative Assistant prepares a Request for Funds (cash advance/reimbursement request) using approved invoices, quotes, and obligating documents to ensure reports are supported, mathematically accurate, and complete.**

### **Evaluation of Results:**

Did you identify any control deficiencies? - **NO**

If so, **you must:**

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. **N/A**
2. Document the rationale for a LOW or HIGH risk assessment. **N/A**

### **Preliminary Control Risk Assessment**

Based on our understanding of key internal controls, we assess preliminary control risk at **LOW**.

### **Internal Control Testing**

**Key Control: The Administrative Assistant prepares a Request for Funds (cash advance/reimbursement request) using approved invoices, quotes, and obligating documents to ensure reports are supported, mathematically accurate, and complete.**

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Dual purpose testing: To determine if this key control is in place and effective, we performed dual purpose testing in conjunction with our compliance testing. We tested the four cash advance/reimbursement requests submitted during the period. We determined the sum of the requests agreed to the expenditure amount reported on the SEFA (\$369,622). Michelle also provided us with the 12 invoices and grant award obligating documents she used to support each request. Per our review of the underlying documents, requested cash advances/reimbursements were supported, mathematically accurate, and complete. We determined this key control is in place and operating effectively. See dual purpose testing here [[Reporting Testing](#)].

### **Evaluation of Results:**

Did you identify any control deficiencies? - **No**.

If so, **you must**:

1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole. **N/A**
2. Document the rationale for a LOW or HIGH risk assessment. **N/A**

### **Final Control Risk Assessment**

We assess final control risk at **LOW**.

### **Risk of Material Noncompliance**

We assess the risk of material noncompliance at **LOW**.

### **Compliance Testing**

#### **FINANCIAL REPORTS**

Selection: If there are multiple financial reports of the same type, such as reimbursement requests, select some using the small population selection table in the policy tab. If reports are less than quarterly, such as project end reports, select all of them.

1. Support:

Trace the amounts reported to the auditee's accounting records or other appropriate supporting documentation

2. Accuracy:

Test mathematical accuracy of reports and supporting worksheets and prepared in accordance with the required basis of accounting

3. Completeness:

Test the selected reports for completeness. Review accounting records and ascertain if all applicable accounts, activity, netting items were included in the selected reports (e.g., program income, applicable credits, loans, interest earned on Federal funds, and reserve funds).

To determine if the City is in compliance with financial reporting requirements, we performed dual purpose testing in conjunction with our

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internal control testing. We tested the four cash advance/reimbursement requests submitted during the period. We determined the sum of the requests agreed to the expenditure amount reported on the SEFA (\$369,622). Michelle also provided us with the 12 invoices and grant award obligating documents she used to support each request. We traced the amounts reported on the cash advances/reimbursements requests to the amounts reported on the 12 invoices/quotes. We determined financial reports were supported, mathematically accurate, and complete. See dual purpose testing here [[Reporting Testing](#)].

### Evaluation of Results:

Did you identify any noncompliance? - **NO**

If so, **you must:**

1. Determine and document the magnitude of the noncompliance on the program as a whole. **N/A**
2. Document the reason for the noncompliance. **N/A**
3. Consider whether additional testing is needed to provide reasonable assurance of detecting material noncompliance (e.g. is the risk of material noncompliance increased for the activities or costs that you did not test?). **N/A**
4. Reassess the final control risk. Generally, noncompliance is the result of a control deficiency; therefore, it is necessary to reconsider the effectiveness of the internal controls. **N/A**

### D.1.PRG - Assistance to Firefighters Grant - 97.044

*Procedure Step:* REQUIRED - Program Summary

*Prepared By:* AR, 12/1/2021

*Reviewed By:* AMS, 3/4/2022

Purpose/Conclusion:

#### **Purpose/Conclusion:**

To summarize the major program audit results.

Testing Strategy:

[Summary](#): Complete the Major Federal Program spreadsheet, the same one from the Compliance Requirements step. While it summarizes the

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results, each compliance area with an exception should have a rationale for reporting level in the ROWD.

**Questioned Costs:** Known and likely questioned costs of \$25,000 or greater must be reported as a finding. Known questioned costs must be listed separately from likely/projected/estimated questioned costs on the finding. See the Audit Report Standards Manual for an example.

**Don't Net Questioned Costs:** If you find the entity overbilled and underbilled the program, do not net them to determine total questioned costs. Overbilled amounts represent unallowable costs that are used to determine the level of non-compliance. Underbilled amounts just represent the availability of other costs that could be considered allowable and are not an error.

**Associated Questioned Costs:** When you question direct costs you should consider the impact errors would have for "directly associated costs." When an unallowable cost is incurred, directly associated costs are also unallowable. Directly associated costs are incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not happened. For example:

1. Fringe benefits are directly associated with payroll costs,
2. Indirect rates multiplied against questioned direct costs results in directly associated indirect costs.

**Questioned Costs – Clusters:** When questioning costs in a cluster of programs, be sure to designate which costs are attributed to each CFDA number within the cluster.

**COVID-19 Identification:** Consistent with identifying COVID-19 expenditures on the SEFA, auditors should include the COVID-19 identification for audit findings that are applicable to COVID 19 new or existing programs.

Guidance/Criteria:

**Material Weakness and significant deficiency** What is the difference between a "significant deficiency" over internal control and a "material weakness" over internal control?

The definitions of significant deficiency and material weakness for Uniform Guidance single audits are as follows: The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

**Material weakness in internal control over compliance.** A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a

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timely basis. In this section, a reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Probable. The future event or events are likely to occur.

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

The main difference lies in the magnitude of the potential and known noncompliance that could occur as a result of the control deficiency that you identified. Auditors are required to use the decision matrix for evaluating control deficiencies. The decision matrix can be found in the single audit planning guide

When do I modify my opinion on compliance for a major program?

The auditor's determination of whether noncompliance is material for the purpose of reporting an audit finding is made at the individual compliance requirement level (for example, activities allowed or unallowed, cash management, eligibility, etc.) for each major program.

For example, when the auditor discovers noncompliance involving the DAVIS-BACON ACT (prevailing wage) requirement for a particular major program, several materiality determinations must be made using professional judgment. First, the auditor must decide whether the noncompliance is material to the DAVIS-BACON compliance requirement for that particular major program. If the auditor determines the noncompliance is material to the DAVIS-BACON compliance requirement, the noncompliance would be reported as a finding in the schedule of findings and questioned costs. Second, the auditor must decide whether the discovered noncompliance is material, either individually or when aggregated with other noncompliance findings or scope limitations, in relation to the particular major program taken as a whole. If the auditor determines the noncompliance is material to the major program taken as a whole, the auditor would express a qualified opinion or adverse opinion on compliance with respect to the particular major program.

SAO typically uses 10% as the materiality level for evaluating exceptions for each compliance area. However, if the dollar amount associated with instances of noncompliance, either for an individual compliance requirement or aggregated compliance requirements, exceeds 20% of the total program costs, we will consider modifying our opinion (issuing a qualified, adverse, or disclaimer of opinion) on compliance for the program as a whole. This does not preclude auditors from modifying their opinion for lesser amounts. In addition to this monetary measure, auditors should evaluate non-monetary factors, both quantitative and qualitative, when considering whether to modify their opinion on compliance for the program. Auditors should also recognize it may be necessary to modify their opinion on compliance for scope limitations where sufficient and appropriate audit evidence could not be obtained for examination.

When evaluating the effect of identified noncompliance or scope limitations on our opinion over compliance, we will use the chart in the Major Federal Program spreadsheet as guidance. This evaluation will be made for both individual compliance requirements and aggregated compliance requirements.

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Remember, decisions about reporting noncompliance are separate from our evaluation of internal control weaknesses.

Record of Work Done:

We summarized the results of the major program audit: [ Major Federal Program - Local teams ]

### D.2.PRG - Concluding Single Audit Procedures

*Procedure Step:* Subsequent Events

*Prepared By:* HVB, 3/18/2022

*Reviewed By:* AMS, 3/18/2022

Purpose/Conclusion:

#### **Purpose:**

To determine if there are events or transactions that occurred subsequent to fiscal year-end that (1) provide additional information about compliance during the audit period or (2) indicate noncompliance occurring subsequent to the audit period but before the date of the auditor report.

#### **Conclusion:**

We identified **no** subsequent events relevant to our compliance conclusions.

Testing Strategy:

The following procedures are **required** to review for subsequent events:

- Inquire with management about any relevant investigations or reports issued during the subsequent period by internal auditors, other auditors, and grantors or pass-through agencies. This assertion will be confirmed in the management representation letter. *Remember to document which member of management you inquired with.*

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- Review minutes up to the audit report date or as nearly as practicable.
- Review EIS and consider current results of other SAO audits or engagements, if any, up to the audit report date or as nearly as practicable.
- Review FAWF for news articles or other items that may indicate a subsequent event up to the audit report date or as nearly as practicable.

### **If any potential subsequent events are identified:**

- Auditors should also consider additional procedures based on risks identified or follow-up procedures to verify or better evaluate potential subsequent events.
- For events providing more information about compliance and controls during the audit period, consider the effect on our audit opinions. Contact the Single Audit Specialist for assistance with this evaluation, if needed.
- For events related to noncompliance that occurred after FYE, consider whether noncompliance occurring in the subsequent period is of such nature and significance that disclosure is necessary to prevent report users from being misled. Contact the Single Audit Specialist for assistance with this evaluation, if needed.

Guidance/Criteria:

AU-C 935 - *Compliance Audits*, paragraphs 25-27

Record of Work Done:

In addition to general procedures performed during the course of the audit, we performed the following procedures to identify potential subsequent events affecting any component of the government or aspect of the single audit:

- Updated our review of minutes up to 3/8/2022 (as near as practicable to the report date as documented [[Meeting Minutes Review - Clarkston](#)]).
- Checked EIS and updated our review of Other Engagements & FAWF up to 3/18/2022 (up to the report date) as documented [[Minutes, Other Audits and FAWF](#)].
- Inquired about any relevant investigations or reports issued during the subsequent period by internal auditors, other auditors, and grantors or pass-through agencies with Steve Austin, Clerk Treasurer on March 18, 2022.

We identified no subsequent events relevant to our compliance conclusions.

### **D.2.PRG - Concluding Single Audit Procedures**

***Procedure Step:*** Prior Federal Findings

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**Prepared By:** TLJ, 12/29/2021

**Reviewed By:** HVB, 1/10/2022

## Purpose/Conclusion:

**The Summary Schedule of Prior Audit Findings must report the status of all findings reported in the prior single audit OR financial audit (including findings reported in the prior Summary Schedule of Prior Audit Findings that were not listed as "fully corrected" or "no longer valid").**

## **Purpose/Conclusion:**

The Summary Schedule of Prior Audit Findings is not applicable; there are no prior financial or federal audit findings that require follow-up.

## Testing Strategy:

The following procedures are **required** to complete and evaluate the Summary Schedule of Prior Audit Findings, if applicable:

- Identify all prior audit findings and link to where follow-up work was documented in TeamMate. If your follow-up work was documented in conjunction with an audit of a major program, link to this work. If your follow-up work pertained to a non-major program, document the results in this step if not done in any other step. If follow-up work was documented in conjunction with the financial statement audit, link to this work.

*Major programs: prior year conditions that continue to be uncorrected during the current audit may need to be reported again as a finding in accordance with our materiality thresholds.*

*Non-major programs: We do not have to re-report internal control weaknesses or noncompliance for non-compliance for nonmajor programs unless we become aware of questioned costs exceeding \$25,000.*

- Use the template provided in TeamMate (Audit Administration | Wrap Up) or ORCA to draft the schedule, excluding the corrective action and status sections which are prepared by the entity.
- Use the template provided in TeamMate (Audit Administration | Wrap Up) to request the auditee complete the schedule with the status and description of corrective action **on their own letterhead (preferably in Word)**.
- Review the status and description of corrective action provided by the auditee and compare it with the results of follow-up work. If information is misleading or inaccurate, request the auditee modify the information. If the auditee refuses to correct the inaccurate information, contact your Assistant Director and TAS to determine whether to report this as a finding.



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Definitions for each status are listed in Tracker and the ARS Manual Part 5, Chapter 4. When evaluating the reported status, auditors should **consider**:

- To what extent does the previous condition continue to exist?
  - What actions were taken by the government and what remedial effect (if any) did they have on the condition?
  - Whether the condition or recommendation is repeated in part or whole as part of the current audit. Note: prior audit findings that are not corrected or partially corrected would imply the need to re-issue the finding in the current audit.
  - In situations where a prior audit finding is not re-issued, there may still be issues or control deficiencies that are communicated as management letters or exit items. However, the finding-level issues would be considered fully corrected for purposes of the schedule.
- Upload the completed schedule to the Audit Review Library along with your audit report
  - Update the Audit Status in Tracker for each prior audit finding and management letter with the verified status of the issue and the number of consecutive years it has been repeated at that reporting level.

*If the Entity Reported Status has changed upon audit, auditors should encourage the client to update it by copying the description in the schedule or including an abbreviated or expanded version. However, it is not the auditor's responsibility to ensure it is updated if the client does not take this opportunity.*

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**ARS Manual [Part 5, Chapter 4](#)** - describes requirements for the Summary Schedule of Prior Audit Findings

**[Tracker Quick Reference Guide](#)** - provides auditor instructions about updating Tracker

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**Uniform Guidance, 2 CFR 200.511** - describes requirements for the summary schedule of prior audit findings for single audits

Record of Work Done:

The Summary Schedule of Prior Audit Findings is not applicable; there are no prior financial or federal audit findings that require follow-up.

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## D.2.PRG - Concluding Single Audit Procedures

**Procedure Step:** SA Summary & Report

**Prepared By:** HVB, 3/16/2022

**Reviewed By:** AMS, 3/18/2022

### Purpose/Conclusion:

#### **Purpose:**

To determine (1) if audit evidence is sufficient and appropriate to support Single Audit opinions and (2) the audit results to be included in our reports.

#### **Conclusion:**

We determined (1) audit evidence is sufficient and appropriate to support Single Audit opinions and (2) the audit results to be included in our reports.

### Testing Strategy:

Auditors are **required** to perform the following procedures to determine whether the Single Audit has been properly completed and to summarize results to be included in our audit report:

#### **(1) Evaluation of Evidence Obtained**

- **Completion of audit work:** Check that all work is completed.

*Reminder: all work supporting the report must be completed and reviewed prior to the date of our audit report. This includes any referenced work documented in other audits or sections.*

- **Audit evidence:** Determine whether procedures and results provided audit evidence of an appropriate quality and in a sufficient extent to support the report.

*"Sufficient" refers to the amount of evidence obtained; "appropriate" refers to the quality of the evidence; "quality" refers to applicability of the evidence to the audit objective.*

*If evidence is not sufficient or of an appropriate quality to conclude on a particular area, the auditor should perform further tests or procedures to obtain the necessary evidence.*

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- **Communication with the Governing Body:** Evaluate whether two-way communication with those charged with governance has been adequate for the purpose of the audit. If not, there is a risk that not all the audit evidence required to support the audit report has been obtained. In such cases, the auditor should take appropriate action to address the effectiveness of the communication prior to reporting.

*The objective of this evaluation is to consider whether we have all the information we need from the governing body before issuing the report. While an exit conference (or planned exit conference) may be necessary in some circumstances to obtain or confirm views of the governing body, the auditor may conclude that communication is adequate and the report may be issued prior to the exit conference.*

*In evaluating communication, auditors should consider:*

- *Whether the audit results in findings or there were difficulties or disagreements during the course of the audit that necessitate specific communication with the governing body*
- *Whether the views of the governing body are important to any key audit evidence*
- *The apparent awareness and understanding of the governing body to any critical issues or business risks identified by the audit*
- *The apparent openness of the governing body in their communications with auditors and their willingness and ability to meet with auditors*
- *The apparent level of communication by management with the governing body regarding the audit*
- *Whether any members of the governing body have expressed interest or concern about any audit areas or issues*
- **Changes:** If there were changes to the Schedule of Expenditures of Federal Awards made after planning the single audit, ensure that the required percentage of federal expenditures coverage is met.
- If the audit is **terminated** before completion, auditors should follow Audit Policy 1220 and document the work done, the decision and reason for termination, and any communications.

### **(2) Single Audit Report**

Reference the summary spreadsheet that was completed for each major program. Those spreadsheets will be used to prepare the Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with Uniform Guidance (S-2 Report).

*It is critical that the type and level of findings indicated in red boxes in the major program summary spreadsheets are reflected in the audit report. For example: i*

- *If you concluded that a significant deficiency over internal control is a material weakness, you must select this level in ORCA.*
- *If you modified your opinion on compliance (issued a qualified, adverse or disclaimer of opinion) for a major program, our audit report should reflect this decision.*
- *If the audit determined there were questioned costs and/or material noncompliance to be reported in a finding, but that did not result in a modified opinion, a reference to the finding must be included in an other matters paragraph in the report.*

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## **(3) Report Preparation & Distribution:**

- Prepare the audit report using ORCA and the ARS manual.
- **Consistent with identifying COVID-19 expenditures on the SEFA, auditors should include the COVID-19 identification as a prefix to the program name in the S-1, Identification of Major Federal Programs.**
- Review report distribution in ORCA to ensure standard distribution and distribution to any additional parties that may need to be informed of the audit.
- **Ensure all applicable laws and regulations (criteria) are included in the finding. See ARS Manual Part 5 Chapter 2 (note change to the citation for single audits).** Contact the Single Audit Specialist with questions regarding applicable criteria
- **Consistent with identifying COVID-19 expenditures on the SEFA, auditors should include the COVID-19 identification for audit findings that are applicable to COVID 19 new or existing programs.**
- Route Findings and Management Letters to the appropriate personnel. ***NEW OPTIONAL RESOURCE (ARSpt5ch09): [SINGLE AUDIT FINDING CHECKLIST](#)***
- Contact the Single Audit Specialist for assistance with any special reporting situations (such as an A-133 audit) or questions. Reports involving a modified opinion on a federal program should be reviewed by Team Audit Support/QA.

Guidance/Criteria:

[Refer to ARS manual for details regarding audit report contents and preparation.](#)

**SAO Audit Policy 5410 – Federal Findings, Questioned Costs, and Management Letters**

**SAO Audit Policy 5510 – Reporting on Single Audits**

**SAO Audit Policy 2310 – Protocol for Identified Audit Issues (including Findings and Management Letters)**

Record of Work Done:

## **(1) Evaluation of Evidence Obtained**

We determined that sufficient, appropriate evidence was obtained and documented in order to support our audit report. In making this determination, we:

- **Completion of work:** checked that all work was complete.
- **Audit evidence:** considered quality and amount of audit evidence, in relation to identified risks.

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- **Communication with governing body:** considered sufficiency and effectiveness of our communication with management and those charged with governance.
- **Changes:** there were no changes to the Schedule of Expenditures of Federal Awards that were made after planning the single audit.

### **(2) Single Audit Report**

We analyzed accumulated issues in the LOR Summary [[LOR Summary](#)]. Based on our audit and consideration of results at both individual and aggregate levels, we determined reporting level of audit issues and determined the content of our audit report. A spreadsheet for each major program was completed, which summarizes the audit results:

- Assistance to Firefighters Grant, CFDA no. 97.044 - [[Major Federal Program - Local teams](#)]

These results will be incorporated into our audit report.

### **(3) Report Preparation & Distribution:** [[Report Review Checklist](#)]

Report preparation, technical report review, issuance, distribution, and the final official version of the report is documented in ORCA and the ARTS database.

Standard report distribution will include the audit liaison (on behalf of the government's management and governing body), representatives of oversight bodies and other officials as appropriate. Report distribution will not be limited. The report will be published on our website and further distributed by email to any parties with applicable subscriptions.

### **D.2.PRГ - Concluding Single Audit Procedures**

*Procedure Step:* Corrective Action Plans

*Prepared By:* HVB, 3/18/2022

*Reviewed By:* AMS, 3/18/2022

Purpose/Conclusion.

**This step is applicable if the auditor is reporting any financial statement or federal grant findings.**

**Purpose / Conclusion:**

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To ensure the auditee prepares a corrective action plan for each financial or single audit finding in our report.

### Testing Strategy:

For each finding included in the single audit report (including all federal program findings and any financial audit findings as well), the auditee is required by federal law to prepare a corrective action plan to be included in the submission to the Federal Clearinghouse. This corrective action plan is needed in addition to the auditee's response that is provided in the actual finding.

For each financial or single audit finding, auditors are **required** to:

- Enter the current year finding reference number(s) and caption(s) in the template, provide the auditee with a copy of the template, and instruct them to fill out the remaining sections **on their own letterhead (preferably in Word)**. The template is available in the Store in the Single Audit cabinet (Work Papers/Concluding Single Audit Procedures folder). The template is also in ORCA.
- Check the corrective action plan to ensure it is complete.
  - If any comments are inconsistent or in conflict with the finding, check with your manager and deputy to determine appropriate follow-up procedures to investigate and attempt to resolve the inconsistency or conflict.
  - Auditors have no responsibility for accuracy or feasibility of the corrective action plan.
- Insert (copy/paste) the completed template into the audit report.

### Guidance/Criteria:

**2 CFR 200.511 requires corrective action plans for federal audit findings and for financial audit findings included with the single audit report.**

"(c) Corrective action plan. At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in 200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons."

**ARS Manual Part 5, Chapter 6 provides instructions regarding Corrective Action Plans**

### Record of Work Done:

For each finding included in the single audit report (including all federal program findings and any financial audit findings as well), the auditee is required by federal law to prepare a corrective action plan to be included in the submission to the Federal Clearinghouse. This corrective action plan is needed in addition to the auditee's response that is provided in the actual finding.

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For each financial or single audit finding, auditors are **required** to:

- Enter the current year finding reference number(s) and caption(s) in the template, provide the auditee with a copy of the template, and instruct them to fill out the remaining sections **on their own letterhead (preferably in Word)**. The template is available in the Store in the Single Audit cabinet (Work Papers/Concluding Single Audit Procedures folder). The template is also in ORCA.

We entered the current year finding reference number (2020-001) and caption in the template, provided the City with a copy of the template, and instructed them to fill out the remaining sections on their own letterhead, preferably in Word. See request here [\[City of Clarkston Audit - Request for Finding Response and Corrective Action Plan\]](#).

- Check the corrective action plan [\[2020 Corrective Action Plan\]](#) to ensure it is complete.
  - If any comments are inconsistent or in conflict with the finding, check with your manager and deputy to determine appropriate follow-up procedures to investigate and attempt to resolve the inconsistency or conflict.

[N/A - Comments were not inconsistent or in conflict with the finding.](#)

- Auditors have no responsibility for accuracy or feasibility of the corrective action plan.
- Insert (copy/paste) the completed template into the audit report.

[We inserted \(copy/pasted\) the completed template into the audit report.](#)

### D.2.PRG - Concluding Single Audit Procedures

*Procedure Step:* Review Finding Response

*Prepared By:* HVB, 3/18/2022

*Reviewed By:* AMS, 3/18/2022

Purpose/Conclusion.
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**This step is only applicable if findings are reported, otherwise it can be deleted.**

#### **Purpose:**

To request and evaluate the views of responsible officials on draft findings to ensure adequate communication has occurred and our report is accurate, complete and objective.

#### **Conclusion:**

## City of Clarkston

We requested and evaluated the views of responsible officials on draft findings to ensure adequate communication has occurred and our report is accurate, complete and objective.

### Testing Strategy:

*Auditors must either (A) obtain and review the finding response on or before the report date or (B) confirm with management on or before the report date that the response will not contain any new information or disagreement that might cause us to re-evaluate our finding, in which case the response may be obtained and reviewed any time before report issuance.*

Audit issues should be discussed in detail with the audit liaison and other responsible parties as part of concluding on audit tests. These discussions should be completed prior to providing a draft finding and requesting a response. To request and evaluate the views of responsible officials on draft findings, auditors are **required** to perform the following procedures:

- Use the "Request for Finding Response" template in TM to obtain a response to draft findings.

*Normally, coordination of a response will be handled by the audit liaison. But in some circumstances it may be appropriate for the auditor to also directly communicate with other officials or the governing body or request meetings with key staff for this purpose.*

- Obtain and evaluate the Auditee's Response. If any comments are inconsistent or in conflict with the finding, check with the manager and assistant director to determine appropriate follow-up procedures to investigate and attempt to resolve the inconsistency or conflict.

*The response should normally be received and reviewed on or before report date. However, the response may be received after the report date (but before report issuance) so long as auditors document their confirmation that management and the governing body has reviewed the finding and their response will not include any new facts or perspectives that might cause us to re-evaluate our finding.*

*If a response was not provided or was edited by the auditor, auditors should document the circumstances and rationale. Appropriate follow-up may include:*

- *Discussions or meetings with the government to ensure understanding of issue or to ensure adequate two-way communication with responsible officials and those charged with governance*
  - *Audit procedures or report review to evaluate the validity of comments*
  - *Modifications to the finding or report*
  - *Audit procedures to develop the Auditor's Response*
  - *Discussion at the exit conference regarding disagreements with management*
- Develop an appropriate Auditor's Response



## City of Clarkston

Guidance/Criteria:

**GAS 4.33-39 describe the auditor's responsibility to obtain the views of responsible officials and evaluate responses.**

**ARS Part 5, Chapter 2 provides guidance on development of findings, including the auditee's response and auditor's response sections.**

Record of Work Done:

**Obtaining the views of responsible officials:**

We presented the draft finding to Steve Austin, Clerk Treasurer of March 16, 2022.

We requested a response from Steve Austin, Clerk Treasurer on March 16, 2022 as documented in [City of Clarkston Audit - Request for Finding Response and Corrective Action Plan].

**Evaluating the response:**

We obtained the response as documented in [2020 Corrective Action Plan]. We reviewed it and noted:

- No new evidence was presented
- No information that was contradictory or inconsistent with facts presented in our finding
- No new perspectives were shared that would cause us to re-consider our description of the condition, cause, effect or recommendation

We developed the Auditor's Response section of our finding based on this evaluation.

**D.2.PRG - Concluding Single Audit Procedures**

***Procedure Step:*** SA Letter of Representation

***Prepared By:*** TLJ, 12/29/2021

***Reviewed By:*** HVB, 1/10/2022

Purpose/Conclusion:

# City of Clarkston

## **Purpose:**

To confirm the continuing applicability of management's explicit or implicit representations and reduce the possibility of misunderstanding.

## **Conclusion:**

Entity management provided a signed letter with all appropriate representations.

## Testing Strategy:

*Auditors must either (A) obtain and review the representation letter on the report date or (B) confirm with management on or before the report date that the representation letter will be signed without exception, in which case the letter may be obtained and reviewed any time before report issuance.*

## **STEP 1: Identify necessary representations**

Using the TeamMate template letter located in the SAOStore (Audit Administration | Audit Wrap-Up folder), determine the applicable written representations needed from management for all periods covered by our audit report. Auditors should use one of the following templates:

- **GAAP** – use for all GAAP presentations (including ESDs and GAAP basis school districts)
- **BARS Cash Basis** – use for all governments that are reporting on a BARS Cash Basis or that do not prepare financial statements.
- **School F196** – use for all school districts that report using the F196 on a cash or modified accrual basis.

The template should be modified as needed to reflect the audit scope and situation.

*The "general representations" section should be included in all situations; other sections should be deleted if unneeded. For example, auditors should delete the "additional representations related to the financial statements" section if a financial statement audit is not done or when issuing an opinion on single audit work at a later date than the financial statement opinion.*

Consider whether any additional representations need to be obtained beyond the standard representations included in the template and modify the template as needed. Contact TAS if you need assistance regarding any additional representations that may be needed.

*The following are common examples of additional representations (see also AU-C 580, Exhibit B):*

- *The government has used the work of a specialist, such as for determining environmental remediation, pension, OPEB, self-insurance or landfill obligations.*
- *The government has changed accounting principles.*
- *Supplementary information is being presented (such as ACFR or grant schedules).*
- *Financial circumstances are strained and we are reporting either an emphasis of a matter or going concern paragraph.*

## **STEP 2: Request letter of representation**

Auditors should request the letter of representation by letter or email using the template located in the SAOStore. Since representations include reference to uncorrected misstatements (if any), the auditor's final list of uncorrected misstatements should either be included in the letter or

## City of Clarkston

attached.

If an updated letter is needed, auditors may either request a new letter of representation with the correct date or may request an updating letter which refers to the original letter of representation.

### **STEP 3: Review representations**

Obtain and review the representation letter to ensure:

- All representations were properly made and are consistent with expectations
- It is dated as of our report date
- It is signed by appropriate members of current management.

*The representation letter must be dated as of the report date. However, the letter may be received after the report date so long as it is obtained before issuing the report.*

*The letter should be signed by members of management with overall responsibility of financial and operating matters who are responsible and knowledgeable about, directly or through others in the entity, the matters covered in the representations. Generally, the letter is signed by the chief executive officer (e.g. city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer).*

*When such persons were not present during all periods referred to in the letter, they may claim they are not in a position to provide some or all of the representations. This fact, however, does not diminish management's responsibilities and would not be a reason for the auditor to accept this risk or responsibility.*

Guidance/Criteria.:

### **SAO Audit Policy 3420 - Obtaining Management Representation Letters**

Record of Work Done.:

We completed this in conjunction with the Financial Statement Audit - See FS Letter of Representation step at [\[FS Letter of Representation\]](#).

### **D.2.PRG - Concluding Single Audit Procedures**

***Procedure Step:*** SA Exit Conference

***Prepared By:*** TLJ, 12/29/2021

***Reviewed By:*** HVB, 1/10/2022

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Purpose/Conclusion.:

**Purpose / Conclusion:**

To communicate the results of our single audit with management and the governing body.

Testing Strategy.:

Typically communication of single audit results occurs at the financial statement exit conference, which is documented in a separate step. Auditors should ensure that single audit results are communicated at this conference and that the conference is held prior to issuance of the single audit report.

**If no exit conference was held or if the report was issued prior to the date of the exit conference, explain the situation in this step (and in the Exit Conference Explanation field in the Custom tab of the Profile) and document how the auditor ensured that adequate communication with management and elected officials occurred.**

**If a separate exit conference is held to communicate single audit results, auditors must document invitations, conference date, attendees and discussion topics (see the financial statement exit conference step for detailed instructions).**

Guidance/Criteria.:

**SAO Audit Policy 2130 - Inviting Officials to Entrance and Exit Conferences**

**SAO Audit Policy 2220 - Conducting Exit Conferences**

**SAO Audit Policy 2310 – Protocol for Identified Audit Issues (including Findings and Management Letters)**

Record of Work Done.:

Single audit results were communicated with management and those charged with governance at the financial statement exit conference – see FS Exit Conference step at [[FS Exit Conference](#)] for details.

**D.2.PRG - Concluding Single Audit Procedures**

***Procedure Step:*** Data Collection Form

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*Prepared By:* HVB, 3/16/2022

*Reviewed By:* AMS, 3/24/2022

Purpose/Conclusion:

**Purpose:**

To complete and submit the online data collection form, upload the audit report and corrective action plan .pdf file, and certify completeness.

**Conclusion:**

We completed and submitted the online data collection form, uploaded the audit report and corrective action plan .pdf file, and certified completeness.

Testing Strategy:

### **SINGLE AUDIT DATA COLLECTION FORM (Form SF-SAC)**

***NOTE THERE IS A NEW DCF FOR AUDITS OF FY'S 2019-21***

#### **ATTENTION – IMPORTANT INFORMATION ABOUT SINGLE AUDIT EXTENSIONS!**

There have been three single audit extensions issued in the past year. The first one issued on June 18, 2020 via OMB memorandum [M-20-26](#) is no longer applicable. However, guidance was published in the [2020 Compliance Supplement Addendum](#) on December 22, 2020, and, most recently, in [Memorandum M-21-20](#) on March 19, 2021, by OMB. M-21-20 contained different extension guidance that affects all entities that had not filed their single audits with the Federal Audit Clearinghouse as of March 19, 2021. This additional guidance allowed a six month extension and applies to all entities, not to only those receiving COVID-19 funding.

**Affected yearends and new due dates include:**

Fiscal Year Ended	Original 9-month Due Date	Extended Due Date – Addendum (if filed on or before 3/19/2021)	Extended Due Date – M-21-20 (if unfiled at 3/19/2021)

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Jan. 31, 2020	Oct. 31, 2020	Jan. 31, 2021*	April 30, 2021
Feb. 29, 2020	Nov. 30, 2020	Feb. 28, 2021*	May 31, 2021
March 31, 2020	Dec. 31, 2020	March 31, 2021*	June 30, 2021
April 30, 2020	Jan. 31, 2021		July 31, 2021
May 31, 2020	Feb. 28, 2021		August 31, 2021
June 30, 2020	March 31, 2021		September 30, 2021
July 31, 2020	April 30, 2021		October 31, 2021
Aug. 31, 2020	May 31, 2021		November 30, 2021
Sept. 30, 2020	June 30, 2021		December 31, 2021
October 31, 2020	July 31, 2021		January 31, 2022
November 30, 2020	August 31, 2021		February 28, 2022
December 31, 2020	September 30, 2021		March 31, 2022
January 31, 2021	October 31, 2021		April 30, 2022
February 28, 2021	November 30, 2021		May 31, 2022
March 31, 2021	December 31, 2021		June 30, 2022
April 30, 2021	January 31, 2022		July 31, 2022
May 31, 2021	February 28, 2022		August 31, 2022
June 30, 2021	March 31, 2022		September 30, 2022

\* If a single audit report for this yearend was not filed with the Federal Audit Clearinghouse as of March 19, 2021, the

## City of Clarkston

*extended due date would be in the next column. If the single audit report was filed before this date, then the extended due date in this column would apply if the entity received COVID-19 funding.*

*Note: If the due date falls on a weekend or federal holiday, it changes to the next business day.*

No application or approval is needed in either case to use the applicable extension. Entities that take advantage of the extension period must document the reasons for doing so, which does not jeopardize their future qualification for "low risk" status under 2 CFR §200.520.

Remember, the guidance in the Addendum and M-21-20 only affects one of the criteria for determining the actual audit submission due date. Under federal law (2 CFR §200.512), the entity's due date for an audit submission is the earlier of 1) 30 calendar days after receipt of the audit report, or 2) nine months after the end of the audit period (plus extension).

It is recommended auditors review the new instructions and follow the Internet Data Entry System (IDES) user manual when completing the DCF (see links below).

- SAO creates a new data collection form on-line at: <https://harvester.census.gov/facweb/>
  - **Instructions** for the Data Collection Form can be found at: <https://facides.census.gov/Files/2019-2021%20Checklist%20Instructions%20and%20Form.pdf> **Note the "What's New" for this new DCF on pages 4-5 of the instructions.**
  - The **IDES User Manual**, which contains **step by step detailed instructions** for completing the data collection form can be found at: <https://facides.census.gov/Files/IDES%202019-2021%20UG%20User%20Manual.pdf>
  - Another useful resource is the **Frequently Asked Questions**, which can be found at: <https://harvester.census.gov/facweb/FAQs.aspx>

**See also "Auditor's Notes" below for specific information/instruction related to certain items.**

- SAO accesses the IDES system. First-time users must create a user account. To register, you enter your first and last name and email address. To complete the registration, you will need to create a password. User accounts are based on the users email and password. Once registered, the data collection form can be started.
- SAO fills out all the information on the form and accurate data input is critical. Please use the following specific inputs for consistency:
  - Audit Firm/Organization: **Office of the Washington State Auditor**
  - Audit Firm/Organization EIN: **91-6001098**

## City of Clarkston

- OS will e-mail the audit manager and AIC the .PDF file that contains both the Audit Report and Corrective Action Plan (as applicable).
- SAO will upload the audit report file (.PDF file).
- SAO audit manager (or team designee) and the auditee contact person will be prompted via an email notification to certify the report.
- The auditee clicks on 'SUBMIT TO FAC FOR PROCESSING' after both parties have certified the report.

### **Auditor's notes regarding Part II: Federal Awards, Item 1. Federal Awards Expended During Fiscal Period**

#### **Entering awards**

- Federal awards should be in the same order as shown in the SEFA. There are two ways to enter the federal awards. Auditors may enter in the information into the DCF line by line or may add multiple federal awards using the Federal Awards Worksheet template (see 4.2 of the IDES User Manual for instructions). If the latter is chosen (**strongly recommended and note that entities with more than 80 lines must use the upload feature**) use the LGCS download information and copy and paste (one column at a time using the data in the spreadsheet) into the Uniform Guidance upload worksheet.
- Note that the information in LGCS will need to be accurate/corrected if revisions were made to the audited SEFA. The BARS Manual directs entities to make corrections to their Schedule 16 information if changes are identified before or during the audit; therefore, auditors should request that entities make changes when necessary.
- A frequently asked question is whether the same CFDA # should be combined into one line in the DCF. The answer to this question is No for the following reasons:
  - When an award consists of both direct and indirect funds, list the direct expenditure detail on one line and the indirect expenditure detail on a second line (distinction between direct and indirect is required).
  - Also, if the program contains funding from multiple pass-through entities or contracts/awards, report those on a separate line (pass through entities are required to be identified). The form accepts up to 10 pass-through entity names and contract information per program. (If there are more, you will need to start a new line). For multiple



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contracts from the same pass-through entity, you can combine those into one line or list them separately as space allows.

- **COVID-19 identification required per the 2020 Compliance Supplement is as follows:** In column 1c *Additional Award Identification*, add "COVID-19". Also, in column 1d *Federal Program Name*, add "COVID-19" as a prefix to the program name. Note that the instructions in the 2020 Compliance Supplement do not require "COVID-19" be added to the "Other Award Identification Number" column on the SEFA, this is specific to the Data Collection Form.

### **Programs with no CFDA number or the CFDA Number is unknown**

If the three-digit extension is unknown, enter a "U" followed by a sequential two-digit number in the CFDA extension. For example, the first Federal program with an unknown three-digit extension would be U01 for all award lines associated with that program, the second would be U02.

Note: The two digit number can start over for each Federal Agency or continue throughout the remainder of the data collection form.

### **Loan programs**

See the BARS Manual for **special instruction** for reporting the following U.S. Department of Agriculture and the Environmental Protection Agency programs:

- CFDA 10.760 – Waste and Waste Disposal Systems for Rural Communities
- CFDA 10.766 – Community Facilities Loans and Grants
- CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds
- CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds

### **Auditor's notes regarding Part II: Federal Awards, Item 2. Notes to the SEFA**

The DCF automatically numbers the first three Notes. Note 1 describes the significant accounting policies used in preparing the SEFA; Note 2 describes whether or not the auditee elected to use the de minimis cost rate; and Note 3 describes the outstanding loan balances. The automatic numbering of these notes and any additional notes may differ from the note number in the reporting package. Enter the note number in the title of the additional notes (you can't edit the automatically numbered notes). Per the Federal Audit Clearinghouse, the auditee does not have to renumber its Notes to match up with the DCF; the submission will not be rejected if the Notes do not match exactly.

### **Auditor's Note regarding Part III, Item 2. Financial Statements (a)(i-ii):**

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### **(a) What were the results of the auditor's determination of whether the financial statements of the auditee were prepared in accordance with generally accepted accounting principles (GAAP)?**

If the financial statements were not prepared in accordance with GAAP but were prepared in accordance with a special purpose framework, **mark "Adverse" AND "Financial statements were not prepared in accordance with GAAP but were prepared in accordance with a special purpose framework."** (Reference AU-C Section 800, "Special Considerations – Audits of Financial Statements Prepared in Accordance With Special Purpose Framework," for additional information.) *Note: Special Purpose framework means those entities that prepare financial statements that are other than GAAP (e.g. the BARS Manual, Schools Accounting Manual or other method)*

Complete Items (ii), (iii), and (iv) only if the statements were prepared in accordance with a special purpose framework. *(For Washington local governments, that would be any basis other than GAAP.)*

**(i) What was the special purpose framework used? -** Mark the applicable special purpose framework that was used as the basis of accounting using the definitions in AU-C Section 800. **Auditors should mark the "Regulatory basis" box for all BARS cash basis entities with the exception of commodity commissions, which should be reported as "cash basis".**

**(ii) Was the special purpose framework used a basis accounting required by state law? -** Mark either "Yes" or "No" as applicable. Mark "No" if the special-purpose framework was permitted by state law but not required. The response to this question will affect whether an entity can qualify as a low-risk auditee in the two subsequent audit periods (see 2CFR 200.520(b)). **Auditors should mark "No" for all entities except for school districts, for which auditors should mark "Yes".**

### **Auditor's Note regarding Part III, Item 4: Federal Awards Audit Findings**

Column g: Modified Opinion – Select Y or N if the auditor identified the finding in the Report on Compliance for each Major Federal Program as the basis for a Modified Opinion (qualified, adverse, or disclaimer of opinion).

Column h: Other Matters – Select Y or N if the auditor identified the finding in the Report on Compliance for each Major Federal Program as the basis for Other Matters (questioned costs findings, and/or material non-compliance findings, and/or fraud/abuse findings).

Column i: Material Weakness – Select Y or N if the auditor identified the finding in the Report on Internal Control over Compliance as a Material Weakness.

Column j: Significant Deficiency – Select Y or N if the auditor identified the finding in the Report on Internal Control over Compliance as a Significant Deficiency.

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Column k: Other Findings – Select Y or N if there are no Compliance Findings or Internal Control Findings. If the Auditor marked N in all four columns (indicating there are no compliance audit findings or internal control audit findings), mark Y to indicate Other Findings. This will be rare; generally, findings are reported in other matters. Contact the Single Audit Specialist and/or Reporting Specialist before selecting Y.

The chart below shows the nine different possible combinations of findings for columns (g) through (k):

(g)	(h)	(i)	(j)	(k)
<b>Compliance Audit Findings</b>		<b>Internal Control Audit Findings</b>		Other Audit Findings
Modified Opinion	Other Matters	Material Weakness	Significant Deficiency	
Y	N	N	N	N
Y	N	Y	N	N
Y	N	N	Y	N
N	Y	N	N	N
N	Y	Y	N	N
N	Y	N	Y	N
N	N	Y	N	N
N	N	N	Y	N
N	N	N	N	Y

Auditor's should refer to the Federal Compliance and Internal Control Testing Summary in the Major Federal Program Worksheet.

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Guidance/Criteria:

### **2 CFR §200.512 Report submission.**

(b) Data Collection. The FAC is the repository of record for Subpart F—Audit Requirements of this part reporting packages and the data collection form. **All Federal agencies, pass-through entities and others interested in a reporting package and data collection form must obtain it by accessing the FAC.**

(c) Reporting package. The reporting package must include the:

- (1) Financial statements and schedule of expenditures of Federal awards discussed in §200.510 Financial statements, paragraphs (a) and (b), respectively;
- (2) Summary schedule of prior audit findings discussed in §200.511 Audit findings follow-up, paragraph (b);
- (3) Auditor's report(s) discussed in §200.515 Audit reporting; and
- (4) Corrective action plan discussed in §200.511 Audit findings follow-up, paragraph (c).

(d) Submission to FAC. The auditee must electronically submit to the FAC the data collection form described in paragraph (b) of this section and the reporting package described in paragraph (c) of this section.

See [FAQs](#) on the federal resources page for information on the DCF

Record of Work Done:

#### **1. Date completed:** 03/24/2022

AUDITEE NAME: CITY OF CLARKSTON

REPORT ID: 912123

FISCAL YEAR END DATE: 12/31/2020

The auditor has electronically certified (signed) the Form SF-SAC for the above referenced organization.

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After the auditor and auditee have both certified the Form SF-SAC, please complete the final step and submit the Single Audit package.

Sincerely,  
Federal Audit Clearinghouse

<https://gcc02.safelinks.protection.outlook.com/?url=https%3A%2F%2Ffacides.census.gov%2F&data=04%7C01%7Cshaw%40sao.wa.gov%7C4e3afbe72671403048f308da0dfef899%7C11d0e217264e400a8ba057dcc127d72d%7C0%7C0%7C637837686001808383%7CUnknown%7CTWFpbGZsb3d8eyJWIjojMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6IklhaWwiLCJXVCi6Mn0%3D%7C3000&data=w8C xv2ThnUbjvedLulKbFSVAckb0RkOWx1SephWBNFU%3D&reserved=0>  
[govs.fac.ides@census.gov](mailto:govs.fac.ides@census.gov)

### D.2.PRG - Concluding Single Audit Procedures

*Procedure Step:* SA Quality Control Assurance Certification

*Prepared By:* TLJ, 3/22/2022

*Reviewed By:* AMS, 3/22/2022

Purpose/Conclusion.:

**Purpose / Conclusion:**

To review and certify adherence to applicable audit standards and policy with regard to the Single Audit.

Testing Strategy.:

This step should be signed-off by the Auditor-in-Charge, the Assistant Audit Manager, and the Audit Manager. The Quality Control Assurance Certification should be signed-off **before** the Single Audit report is issued.

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**If a requirement does not apply, it should be noted on the certification. If a requirement was not met an explanation needs to be documented and approved by the Audit Manager.** No other modifications to the form should be made. It is not necessary to reference applicable sections of the certification to the audit documentation.

Guidance/Criteria:

### **SAO Audit Policy 3430 – Quality Control Assurance Certification**

Record of Work Done:

#### **Quality Control Assurance Certification**

*The certification should be signed-off before the Single Audit report is issued.*

#### **Auditor in Charge Statements**

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).
2. I informed assistants, if any, of responsibilities and objectives of the procedures they were planned to perform and all relevant information related to those responsibilities (Audit Policy 3160).
3. I monitored the audit budget compared to actual audit hours and requested approval in advance from the supervisor and Audit Manager if additional audit hours were needed (Audit Policy 3160).
4. I promptly informed my supervisor of potential audit issues encountered (Audit Policy 3160).
5. I informed my supervisor of modifications to the audit plan (Audit Policy 3160).
6. Work performed was documented in accordance with Audit Policy 3310.
7. I reviewed audit documentation prepared by assistants to ensure work was adequately performed and properly documented (Audit Policy 3160).
8. I promptly resolved any coaching notes (Audit Policy 3160).
9. Sufficient and appropriate audit evidence was obtained and evaluated to ensure that specific audit objectives were achieved (Audit Policy 3210).
10. The audit of federal programs was conducted using all applicable audit steps in TeamMate and Audit Policy 5000 series - Federal Audits.
11. Adequate communication with management and the governing body occurred prior to issuance of the report, including all information required to be discussed by Audit Policies 2120, 2210 and 2220.

#### **Assistant Audit Manager (Supervisor) Statements**

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).
2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).

## City of Clarkston

3. I ensured that all coaching notes were resolved (Audit Policy 3160).
4. I informed the Audit Manager of significant problems or audit issues (Audit Policy 3160).
5. I agree with the certification statements made by the auditor-in-charge.

### **Audit Manager Statements**

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).
2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).
3. I requested approval for audit budget changes from the Director of State and Local Audit or delegate (Audit Policy 1220). Also, I communicated audit budget changes to Team Financial Services.
4. In my opinion, the staff assigned to conduct each engagement collectively possess adequate professional competence for the tasks required (Audit Policy 3140).
5. I immediately informed the Director of State and Local Audit or delegate if the report was anticipated to be issued 30 days or more after the timeliness goals established in Audit Policy 2320.
6. The protocol for findings and management letters as outlined in Audit Policy 2310 was followed.

### **E.1.PRG - Payroll**

***Procedure Step:*** Background/Audit Plan (Payroll)

***Prepared By:*** TLJ, 10/25/2021

***Reviewed By:*** HVB, 1/11/2022

Purpose/Conclusion.:

#### **Purpose/Conclusion:**

To summarize descriptions, audit risks, and the audit plan as defined in the brainstorm conference here [Brainstorm Conference + Audit Plan](#).

Testing Strategy.:

Summarize descriptions, audit risks, and the audit plan as defined in the brainstorm conference.

# City of Clarkston

Guidance/Criteria:

Record of Work Done:

## **Background:**

We identified descriptions and discussed risks and the audit plan during our brainstorm conference here [Brainstorm Conference + Audit Plan](#).

## **Audit Risks:**

The City operates a fire district. Per the Fire Districts Planning Guide, payroll is inherently risky with fire districts due to the variety of ways payroll is earned. Beyond regular payroll, you can expect fire fighters to earn income for things such as overtime and wild land fire deployment depending on the district. Due to the nature of the job, it's common for fire district employees to accrue significant leave balances (sick and vacation) which often go unused and are cashed out. Collective Bargaining Agreements (CBA) and district policies regularly allow for leave buyouts. There has been an increase in the number of exceptions and frauds related to leave accruals, tracking and buyouts due to lack of supporting documentation for how leave is tracked. Individuals responsible for tracking and calculating any leave balances or buyouts need to have a process in place to ensure leave accruals, balances, buyouts, and any adjustments are accurate. Specifically, there should be documentation to support how balances, buyouts, and adjustments are calculated and in accordance with the CBA and district policies. **There is a risk the City does not have adequate controls over its payroll leave process.**

From our review of the audit history matrix, payroll has not been reviewed since fiscal year 2012. **There is a risk the City does not have adequate controls over its payroll process.**

## **Audit Plan:**

- Obtain and review the City's payroll and leave accrual policies. This includes the payroll/leave accrual sections of collective bargaining agreements where applicable.
- Gain an understanding of the City's overall payroll process.
- Gain an understanding of the City's process for tracking leave accruals and leave buyouts.
- Brainstorm with AIC/AAM to determine focused testing based on risk (i.e. departmental, employee class, etc.).
- Perform Payroll Disbursement Testing based on risk ensuring the following:
  - Timesheets are reviewed and approved by a second, independent employee authorized to review timesheets
  - Pay was calculated in accordance with the correct pay schedule, applicable collective bargaining agreement, and/or contract.
- Perform Leave accrual testing with the City's fire department as follows:
  - Recalculate leave accrual rates for selected employees based on risk for a given fiscal year to determine whether the City is properly tracking and recording payroll leave accruals.



## City of Clarkston

- Leave accruals and/or leave buyouts were calculated in accordance with the correct collective bargaining agreement and/or contract.
- Record your results.

### E.1.PRG - Payroll

*Procedure Step:* General Understanding (Payroll Disbursements, Time Cards, & Leave Accrual)

*Prepared By:* TLJ, 11/15/2021

*Reviewed By:* HVB, 1/18/2022

Purpose/Conclusion.:

**Purpose:**

To determine whether the City has adequate controls over payroll disbursements.

**Conclusion:**

We determined the City has adequate controls over payroll disbursements.

Testing Strategy.:

**Purpose:**

To determine whether payroll controls are adequate to safeguard public resources.

**Conclusion:**

We determined payroll controls are adequate to safeguard public resources.

Guidance/Criteria.:

Record of Work Done.:

**Key Employees**

# City of Clarkston

- Deputy Clerk Treasurer, Erica Fisher
- Clerk Treasurer, Steve Austin
- Monika Lawrence, Mayor

We met with Erica and Steve on November 8, 2021 to gain an understanding of the City's payroll process.

## **General Information**

- The City's pay periods are the 1st through 15th and the 16th through 30th/31st of each month.
- Pay dates are the 5th and 20th of each month.
- The City allows employees to be paid via EFT (ACH direct Deposit) or by check. Per Erica, there is less than 5 employees in the city who are paid by check.
- The City contracts with three represented employee classes:
  - Firefighters (PBC: [CBA LOCAL 2299](#))
  - Police (PBC: [POLICE GUILD](#))
  - Public Works and City Hall employees (PBC: [local 1476-c](#))
- Non-represented employees' base pay by resolution can be seen here: ([PBC: 2018-12, non-rep salaries & PBC: 2019-24, non-rep salaries](#))
- Non-represented employees' leave accrual rates and caps can be seen here: ([PBC: Employee Handbook 2016](#))

## **Employee Set up and Modifications within Vision**

- When a new employee is hired, Erica will set up their employee profile within the Vision payroll module, including their base pay & accrual rates per the applicable contract, collective bargaining unit or resolution.
- During the initial process of setting up the employee payroll profile, the choice will be offered to the employee if they wish to receive direct deposit or to be paid by check for their respective pay dates on the 5th and 20th of each month
- The City's process regarding the modification, change, and set up of direct deposit accounts can be seen here: [Controls over EFTs](#)
- Once Erica completes this process, she notifies Steve that the payroll profile is ready for his review and approval.
- Once Steve approves the new employee profile (or modification) with Vision, the employee can be paid.
- When an employee requires a payroll profile modification change such as a rate increase or change of name/physical address,
- When a payroll change or rate increase is made for an employee, a "Personnel Change Form" is completed and signed approved by the employees supervisor, the deputy clerk/treasurer, the clerk/treasurer, and the mayor prior to the change being made. Once the change occurs, it must be reviewed and approved by Steve.

## **General Payroll Process**

- The City uses a manual paper timesheet for employees to record their time.

## City of Clarkston

- Timesheets are prepared by the employee for the pay period they work and is signed by them attesting it's correct, accurate and complete.
- Timesheets are then reviewed and signed approved by their direct supervisor. For City directors including the Clerk/Treasurer, their timesheets are reviewed/signed approved by the Mayor.
- Once timesheets are reviewed and approved, they are sent to the Finance Department for Erica Fisher to process.
- Timesheets are reviewed again by Erica to ensure their accuracy and are complete and that leave taken is supported and input into Vision. Erica's review includes comparing the prior periods pay period to the current one to ensure it is within reason, reviewing leave accrual reports to the time sheets to determine that all leave was supported with sufficient allocated time, ensuring time codes are accurate, and recalculating employees overtime and payroll and comparing it to the payroll reports and time sheets to ensure the amounts calculated within Vision are accurate.
- Once Erica completes her review, she generates a leave accrual report and payroll report for the pay period in Vision along with all of the time sheets for the Mayor and Clerk Treasurer to perform another review to ensure it is accurate and complete. The Clerk Treasurer will go through all of the employees payrolls to perform another check to ensure budget/accounting codes are correct and balance out the leave accrual report to the payroll report, he also compares the current pay period to the previous pay period to confirm it is reasonable based on the previous pay periods disbursements. The Mayor's review is much higher level and includes reviewing the leave accrual report and payroll report to the prior period to ensure it is reasonable based on the city's expectations.
- Once the Mayor and Clerk Treasurer perform their review, the final Vision payroll and leave report is brought before council for final approval.
- ACH direct deposit payments are then sent on the respective pay date. These are processed by Erica and reviewed and approved by the Mayor and Clerk/Treasurer before bank disbursement. Payroll checks are printed by Erica and brought to the Mayor and the Clerk Treasurer to sign (all checks require two signatures).
- Modifications can not be made for employee pay within Vision unless it is approved by Erica and Steve both within Vision.
- If employees note errors with their paychecks or leave balances, they first make contact with their direct supervisor who will then bring it to the attention of the Mayor, Clerk Treasurer, and Deputy Clerk Treasurer, if applicable.

### **Controls over Employee Benefits**

- During the employee on boarding process and input within Vision, Erica sets up all new employees benefits if they are to receive them based off their position and payroll status (full time and part time)
- Erica reviews the medical listing to ensure only eligible employees are receiving benefits.
- Per Erica and Steve, it is the employee's responsibility to notify the City of any changes to their benefit coverage.
- Erica handles benefit payments. Taxes, retirement, medical and anything paid to another government agency are paid electronically.
- All other payments are made through check.
- Payments are made when they are due based on a payment schedule.
- All benefit payments are reconciled monthly with the Employment Security Department and to ensure benefit payments are paid to eligible employees it is handled when the employee is first set up within vision and if there is any modification required a "Personnel

## City of Clarkston

Change Form" is completed and signed approved by the employees supervisor, the deputy clerk/treasurer, the clerk/treasurer, and the mayor

### **Controls over Leave**

- All tracked leave (compensation time, sick leave, vacation leave, holiday leave, personal holiday leave) are tracked within Vision and by the Deputy Clerk Treasurer.
- If an employee needs to take leave, they must submit documentation (such as a request by email or extended leave request form) requesting the leave, this request is then approved and retained by the supervisor.
- All leave is manually reconciled every pay period by Erica which is then subsequently reviewed by the Clerk Treasurer and Mayor.
- Once a month "leave accrual balance report" is generated by Erica and provided to all of the department heads of the City to ensure they are aware of their subordinates' leave balances.
- Per Erica, Vision has built in leave caps/maximums for each employee based on their current longevity, position and contract.
- If an employee is nearing their leave maximum she is alerted within Vision. When this occurs, she reaches out to the applicable employee to ensure they are aware they are nearing there maximum.
- All leave balances are included in each employees paystub to ensure they are aware of their current balances
- Every payroll period during Erica's reconciliation process, she performs a longevity check to ensure employees are accruing at there specified rates. If a rate increases, due to the longevity of the employees employment with the City, she will complete a "Personnel Change form" and have the employee and the employees supervisor, the Deputy Clerk Treasurer, the Clerk Treasurer, and the Mayor sign it before making a change within Vision.
- Once Erica performs this change, it is reviewed and approved by the Clerk/Treasurer within Vision.

### **Testing**

- Testing over payroll disbursements can be seen here: [Testing \(Payroll Disbursements\)](#)
- Testing over Leave accruals can be seen here: [Testing \(Leave Accrual Testing\)](#)

### **Conclusion**

We determined the City has adequate controls over payroll disbursements.

### **E.1.PRG - Payroll**

*Procedure Step:* Testing (Payroll Disbursements)

*Prepared By:* TLJ, 11/17/2021

*Reviewed By:* AMS, 2/19/2022

## City of Clarkston

Purpose/Conclusion.:

**Purpose:**

To determine the propriety of payroll disbursements.

**Conclusion:**

We determined the propriety of payroll disbursements.

Testing Strategy.:

Guidance/Criteria.:

Record of Work Done.:

**Background/Audit Plan:**

See: Background/Audit Plan (Payroll)

**Controls over payroll:**

See: General Understanding (Payroll Disbursements, Time Cards, & Leave Accrual)

**Testing (Payroll Disbursements):**

**Selection:**

- The population we observed for testing included all employees processed payroll disbursements for the city in FY19 & FY20:
- From the total payroll population we judgementally selected 12 employee payroll disbursements based on risk (6 from FY19 & 6 from FY20):
- The risk considerations we used in our judgmental selection was based on the following:
  - The \$ dollar amount of disbursement
  - The \$ dollar amount of the employees Gross pay
  - The \$ dollar amount of the employees Net Pay
  - Name and Title of the employee

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- Duration of employment with the City
- Classification of employee (hourly vs salary)
- and other risks determined by the auditor, as applicable

### Testing/Results:

- The support we received from the district was all of the payroll support including Vision Leave Accrual reports, Collective Bargaining Agreements, Applicable City Council Resolutions, time sheets, employment letters, LNI decree, Leave approval forms, pay stubs and email dialogue from city staff where applicable.
- Using the documents provided by Erica and Steve, and review of the applicable Collective Bargaining agreements and City Council Resolutions we conducted the following procedures/auditor recalculated work below:
  - Recalculate Monthly/Hourly Pay Rate
  - Determine if the employee was paid in accordance with city pay schedule (Yes/No)
  - Determine if the employee was incentive pay was in accordance with applicable CBA or City policy (Yes/No)
  - Determined if Overtime was applicable or paid out in the pay period
  - Recalculate overtime pay
  - Determine if the employee was overtime pay was in accordance with applicable CBA or City policy (Yes/No)
  - Recalculated total pay
  - Determined if there was a variance between recalculated total pay vs what was paid to the employee for the pay period
  - Determine if time sheet was signed by employee and approved by applicable supervisor/reviewer (Yes/No)

See our testing here: [Payroll Testing](#).

### **Conclusion:**

We determined payroll disbursements were properly calculated, supported and approved.

### **E.1.PRG - Payroll**

*Procedure Step:* Testing (Leave Accrual Testing)

*Prepared By:* TLJ, 11/17/2021

*Reviewed By:* AMS, 2/19/2022

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Purpose/Conclusion.:

**Purpose:**

To determine whether selected compensated absence (leave) transactions are valid and properly accrued and used.

**Conclusion:**

We determined selected compensated absence (leave) transactions are valid and properly accrued and used.

Testing Strategy.:

Guidance/Criteria.:

Record of Work Done.:

**Background/Audit Plan**

See: Background/Audit Plan (Payroll)

**Controls over Payroll**

See: General Understanding (Payroll Disbursements, Time Cards, & Leave Accrual)

**Payroll Leave Accrual Testing**

**Selection:**

- The population we observed for testing included all firefighter employees leave taken and accrued for the district in FY19 and FY20:
- From the total payroll population we judgementally selected 15 firefighter employee payroll months (two pay periods each) which indicated leave taken based on risk:
- The risk considerations we used in our judgmental selection was based on the following:
  - The amount of leave taken during the payroll period
  - The amount of leave accrued during the year
  - The total amount of leave accrued during the period
  - Name and Title of the employee
  - Duration of employment with the City

## City of Clarkston

- Classification of employee (hourly vs salary)
- and other risks determined by the auditor, as applicable

### Testing/Results:

- The support we received from the district was all of the payroll support including Vision Leave Accrual reports, employee handbook (see: PBC: Employee Handbook 2016), Collective Bargaining agreements (PBC: CBA LOCAL 2299, PBC: local 1476-c and PBC: POLICE GUILD), Employee longevity reports (for hire dates), leave approval forms, time sheets (two for each month), and email dialogue from City staff where applicable.
- Using the documents provided by Erica, we conducted the following procedures/auditor recalculated work below:
  - Recalculate Vacation Leave Accrual Rate vs Vacation leave Rate Accrued per supporting pay documentation
  - Recalculate Ending Vacation Leave Balance
  - Note Difference between recalculated ending Vacation leave balance vs Vacation leave balance per supporting documentation
  - Recalculate Sick Leave Accrual Rate vs Sick Leave Rate Accrued per supporting pay documentation
  - Recalculate Ending Sick Leave Balance
  - Note Difference between recalculated ending sick leave balance vs sick leave balance per supporting documentation
  - Recalculate Exchange Leave Accrual Rate vs Exchange Rate Accrued per supporting pay documentation
  - Recalculate Ending Exchange Leave Balance
  - Note Difference between recalculated ending Exchange leave balance vs Exchange leave balance per supporting documentation

See our testing here: [Leave Accrual Testing](#).

### Conclusion

We determined selected compensated absence (leave) transactions are valid and properly accrued and used.

### E.2.PRG - EFT Disbursements

*Procedure Step:* Background/Audit Plan

*Prepared By:* TLJ, 11/17/2021

*Reviewed By:* AMS, 2/18/2022

Purpose/Conclusion.*
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# City of Clarkston

## **Purpose/Conclusion:**

To summarize descriptions, audit risks, and the audit plan as defined in the brainstorm conference here [Brainstorm Conference + Audit Plan](#).

Testing Strategy:

Summarize descriptions, audit risks, and the audit plan as defined in the brainstorm conference.

Guidance/Criteria:

Record of Work Done:

## **Background**

We identified descriptions and discussed risks and the audit plan during our brainstorm conference here [Brainstorm Conference + Audit Plan](#).

## **Audit Risks**

Due to the increase in the number of payroll and vendor EFT cyber related frauds, testing EFT controls is a required risk to assess for all entities we audit. Of primary importance is to discuss controls related to changing existing EFT associated bank account numbers. Individuals with the ability to change or add EFT accounts need to have clear guidance on the process to authorize these changes through a proper validation method, specifically, a follow-up phone call. The majority of these frauds are prompted through email communication, but all change requests, including mail, fax and phone calls, should be followed up with a known contact using previously known contact information and not the contact information that may be provided in the request. **There is a risk the City does not have implemented controls in place over Electronic Fund Transactions regarding payroll.**

## **Audit Plan**

- Obtain any applicable policies/procedures regarding the City's payroll/direct deposit process.
- Use TM testing strategy - EFT disbursements - Focused on Payroll (as applicable)
- Obtain an understanding on how direct deposits are set up for new employees and how direct deposit information is changed
- If additional risk identified from general understanding, test any changes of banking information for employees during the audit period.
- Record your results.

## **E.2.PR.G - EFT Disbursements**

***Procedure Step:*** Controls over EFTs

# City of Clarkston

*Prepared By:* TLJ, 11/17/2021

*Reviewed By:* AMS, 2/18/2022

## Purpose/Conclusion:

**This record contains information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited**

### **Purpose:**

To determine whether controls over Electronic File Transfer disbursements are adequate to safeguard public resources.

### **Conclusion:**

We determined that controls over Electronic File Transfer disbursements are sufficient to safeguard public resources. However, the City does not have a written policy over electronic funds transfers. Per BARS 3.8.11.30, policies should be adopted to establish effective internal control to protect EFT transactions from internal and external threats. These policies should include:

- Implementation of bank offered security measures to prevent unauthorized individuals from initiating or modifying a transfer. Each user initiating or approving bank transactions must have a separate banking user id.
- Define the process for creating, securing, sending and authenticating direct deposit transmittal files to prevent unauthorized modification or submission.
- Adoption and implementation of computer standards, policies and procedures to protect the computers and computing processes used for EFTs from computer malware.
- Policies and procedures should be in place to validate these authorization to protect resources being transferred electronically.

We will assess the issues at [\[LOR Summary\]](#) and issue a recommendation here [\[Electronic fund transfers - disbursements\]](#).

## Testing Strategy:

The Public Request Exemption (RCW 42.56.420) protects some IT related information for cyber security purposes. The details documented in the record of work and support workpapers may qualify for this exemption. Auditors must include this statement in the workpapers: **"This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited"**.

Electronic File Transfers (EFT) is a common method to pay vendors and employees quickly. Some transactions, such as payroll taxes, require electronic transfers. For this testing strategy's purpose Automated Clearing House (ACH) and Wire Type Transfers are considered "EFTs."

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Contact [SAOITAudit@sao.wa.gov](mailto:SAOITAudit@sao.wa.gov) for assistance or with questions regarding procedures described below.

The following procedures are **required**:

*\*Note: CAATs testing is optional for this step; however, because this information is not part of the initial data request received by the entities, the CAAT queries may take 2 - 4 weeks to obtain necessary information and develop queries. Auditors should evaluate, throughout the required steps, whether CAATs testing will be necessary and submit an [IT HelpDesk](#) as soon as possible.*

1. Obtain policies and determine if the elements similar to those outlined in BARS Manual [3.8.11](#) Electronic Funds Transfers (RCW 39.58.750) are included.
2. Consider what types of EFT transactions are performed:
  - Payments made via direct deposit, ACH, EFT or any other electronic payment method (i.e. payroll, taxes, benefits, vendor payments)
  - Online banking or bill pay
  - Transfers between entity bank accounts
  - Wire transfers
3. Determine which EFT transaction type(s) pose the highest risk for the entity's activity and organization. There have been increased focus on direct deposits and vendor payments by malicious actors.
4. Gain an understanding (this may require talking to multiple departments such as payroll and accounts payable) of the following:

What are the procedures to add or change employee and/or vendor profiles including contact information and direct deposit bank accounts. *If changes are not requested in-person, confirm how the department verifies the authenticity of new payee or change requests. Any request made through an employee portal system, phone call, email, instant message or physical form not delivered in-person, etc., should have a multi-factor authentication (MFA) or verification method. MFA or verification could be via virtual meeting. Email is not a suggested practice as malicious actors often obtain access to email accounts when conducting these types of fraud. Phone is adequate if there is some method of identifying you are talking to the correct person such as, confirming additional information only the original payee would know (i.e., providing the prior bank account number on file or details of their payment history is a common practice). Sending physical letters confirming the request was received, request was made, and if this request was not made by the vendor/employee they should contact the agency, is a form of verification; however standard mail generally takes too long and fraud could occur while in transit. As we would expect very few additions/changes to payee profile information, even at large governments, we would expect agencies to receive positive affirmations **before** making contact/bank changes or adding new EFT information in their system.*

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**Note:** Previous guidance was to use existing contact information to conduct follow-up confirmations. Cyber actors are now requesting payee contact information to be changed (i.e., phone number, email and less often, mailing address) several months prior to requesting bank account changes. We, therefore, suggest the entity contact the payee based on existing contact information before **any** payee profile contact or banking changes (i.e., phone number, email, physical address, bank account information). Agencies should not use any contact information provided by the request but instead use existing information or by looking up the contact information (i.e., on-line, employee supervisor, person who is responsible for the purchases through a vendor, etc.)

Are changes to payee information logged in some method that is free from alteration?

*This log should identify responsible parties and affected fields but not details such as old or new bank account numbers. These logs should be monitored for reasonableness (including volume of requests) and can be cross-referenced to any system audit reports that capture changes made to profiles.*

Is there a dedicated, isolated, computer used specifically for EFT transactions to the bank? Is this computer free of all unnecessary software and not used for email, internet surfing, etc.?

*This increases security protection. If a dedicated, isolated computer is not used, identify the security protection controls established to provide assurance that bank account access is not compromised. Consider the volume and dollar amount of activities when evaluating this control.*

Does the bank offer any automated controls regarding electronic transfers (i.e., emails)? Are these controls used by the entity?

*This can increase the timeliness of identifying and correcting unexpected disbursements. Confirm entity reviews automated notification of EFT transactions (i.e., call-back, email, etc.) for reasonableness (i.e., for transactions that are routine, a transaction mid-cycle should be identified as a red-flag). Entities should have a documented risk assessment for any controls offered by the bank, but not utilized.*

Who are the users with access and rights to initiate and process the EFTs?

*Access should be limited to only those necessary to perform these duties and retain proper segregation of duties (i.e., the individual(s) responsible for initiating EFTs should not have access or responsibilities related to changing profiles, inputting payments, or reconciling bank accounts, etc.) Consider TeamMate testing strategy at Accountability | IT Controls | User Access for a more in-depth review and risks related to user access. If this segregation is not feasible, the entity should have documented risk assessment and compensating controls (consider reviewing and providing the Center's [Segregation of Duties: Essential Internal Controls](#)).*

Is the documentation to support the legal and allowable purposes handled the same as non-EFT transactions?

Are there any outputs (reports or downloads) where the bank account number is in plain text? How does the agency limit the access to these outputs?

## City of Clarkston

Do those who approve payments have access to all types of transactions?

*Minutes or other reports should clearly show EFT and non-EFT payments. Auditors and management should be aware of report criteria to ensure completeness.*

If the agency allows expenditures to be disbursed prior to approval, is there a method to collect EFTs that are not approved?

Are EFTs reconciled by batch or individual transaction?

*Some banks process EFTs in a batch, especially for payroll. However, there should be a control to trace total bank batch to the individual transactions for full or partial reconciliation.*

Is there insurance, bank or other coverage for potential fraudulent claims? What are the terms to timely identify and notify the insurance company?

*To receive coverage, many banking and insurances have a very tight turn around to detect and report a fraudulent EFT transaction. Entities should know their bank and/or insurance company's expectations and ensure bank statements that process EFTs are reconciled before those thresholds.*

What is the corrective plan for fraudulent or erroneous transactions?

*Agencies should have a documented plan or policy.*

Did the government have any loss of money or data from EFT, or other incidents, since the last audit?

*The government or audit team should report any loss of money or data through the SAO Fraud website. Security details should never be in email, a body of a helpdesk or the fraud reporting site. If the auditor or the entity has questions, please request a meeting with [IT Audit](#).*

**Consider** the following procedures:

- Testing strategy available at [Accountability | IT Controls | User Access](#). This may include:
  - Access to online banking portal function
  - Ability to initiate the EFT transaction function
  - Access to text or excel files and folders that maintain batched EFT downloads
  - Access to application(s) bank account records
  - Ability to modify configuration rules of automated interfacing to the banking site function
- As EFT information is in electronic format (text or pdf), some potential CAATs may be requested and tested. These may include:
  - Compare routing / bank numbers used between system and bank

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- Payees with multiple bank account combinations
- Payees using the same bank account information
- Audit trail of changed banking information to payee profile

*As these are not pre-populated CAAT queries, requests may take 2-4 weeks. Auditors should submit an [IT HelpDesk](#) as soon as possible.*

- Confirm entity's bank agreement regarding the verification to only permit transactions from specific authorized users.  
*Changes to staff with bank authorization should only be made by resolution of the governing body. Bank should have controls that reject transactions from any non-authorized users.*
- Testing strategy available at [Accountability](#) | [IT Controls](#) | [Patch Management](#) for systems and/or computers used in the EFT process.
- Identify EFT disbursements from bank statement(s) and review supporting documentation for validity and adequate support.  
*In reviewing documentation, auditors should specifically verify the EFT bank account used and amount. This test may also be done as part of the general disbursement work.*

### Recommendation Review Requirement

IT Security related information, that an external party may use to manipulate the government's system or security-related procedures, is protected by Public Request Exemption RCW 42.56.420. All IT security-related recommendations must be reviewed by [Team IT Audit](#).

[IT Recommendation Procedures](#) are located in Team IT Audit's Support Workgroup folder. Template language for common IT related recommendations can also be found in the [ARS manual Part 5 Chapter 8](#).

Guidance/Criteria:

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

### **BARS 3.8.11 Electronic Funds Transfers**

**RCW [39.58.750](#) Receipt, disbursement, or transfer of public funds by wire or other electronic communication means authorized**

# City of Clarkston

Record of Work Done.

**This record contains information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited**

## **Background/Audit Plan**

See: Background/Audit Plan

## **Key Employees**

Erica Fisher - Deputy Clerk/Treasurer

Steve Austin - City Clerk/Treasurer

## **Policies over EFT Payments**

Per inquiry with Steve Austin, Clerk Treasurer and Erica Fisher, Deputy Clerk Treasurer, the City does not have written policies and procedures over electronic funds transfers. Per BARS 3.8.11.30, policies should be adopted to establish effective internal control to protect EFT transactions from internal and external threats. These policies should include:

- Implementation of bank offered security measures to prevent unauthorized individuals from initiating or modifying a transfer. Each user initiating or approving bank transactions must have a separate banking user id.
- Define the process for creating, securing, sending and authenticating direct deposit transmittal files to prevent unauthorized modification or submission.
- Adoption and implementation of computer standards, policies and procedures to protect the computers and computing processes used for EFTs from computer malware.
- Policies and procedures should be in place to validate these authorization to protect resources being transferred electronically.

## **Controls over EFT Payments**

We will review the City's controls over payroll EFT payments (direct deposits). Per inquiry, the City only performs accounts payable EFT disbursements for federal (IRS) and certain state governmental agencies. All other vendors are required to be paid via the City's invoice/check process. We determined payments made via direct deposit pose the highest risk for the City's activity and organization.

We met with Clerk Treasurer, Steve Austin and Deputy Clerk Treasurer, Erica Fisher to gain an understanding of the City's electronic funds transfers process for payroll, as follows.

- Payroll is processed via EFT or checks. City employees are provided the option to be paid through ACH/direct deposit.
- When a new employee is hired, an employee profile is created within the Vision payroll module by Deputy Clerk Treasurer, Erica Fisher. Erica inputs the employee's basic information, as well as the employee's pay rate and standard hours. Only Erica and Steve

## City of Clarkston

have the ability to create new employees within the Vision payroll module. During this initial set up process, the new employee prepares and submits required payroll forms, such as a W4, direct deposit authorization, and benefits enrollment forms.

- In order for the employee to be paid via direct deposit, the City requires new employees to complete a Direct Deposit form here, see: \*CONFIDENTIAL/REDACT\* PBC: DIRECT DEPOSIT AUTHORIZATION FORM.
- The Direct Deposit form is then used by Erica to fill out the applicable banking information for the new employee within the City's payroll system. The completed form is retained in the employee's profile in a locked cabinet.
- If a change in banking information is needed/required by an employee, they must contact Erica indicating that they need a change. They are then required to obtain a new Direct Deposit Approval document (From Erica in person) for their new direct deposit destination and provide that to Erica in person once it is completed. Once Erica obtains this document she will update/change the applicable banking information. Once this is complete, Steve will review the change to confirm it is legitimate and accurate. Erica has the ability to modify banking information within Vision but must be approved by Steve.
- Per Steve and Erica, the City has not had any loss of money or data from EFT, or other incidents.
- On 10/28/21 We met with Erica and Steve who walked us through the process of setting up an employee's direct deposit information and if an employee requests a change using the following form, see: \*CONFIDENTIAL/REDACT\* PBC: DIRECT DEPOSIT AUTHORIZATION FORM. During this walkthrough, Erica and Steve showed how modifications are made, set ups and removals are conducted and how an employee would receive a copy of the Direct Deposit Authorization form. From this walkthrough, we confirmed the controls above and noted no issues.

Per inquiry, Steve and Erica confirmed there were no changes to employee direct deposit information. We will pass on further review and not test EFT payments/changes.

### **Conclusion:**

We determined that controls over Electronic File Transfer disbursements are sufficient to safeguard public resources. However, the City does not have a written policy over electronic funds transfers. Per BARS 3.8.11.30, policies should be adopted to establish effective internal control to protect EFT transactions from internal and external threats. These policies should include:

- Implementation of bank offered security measures to prevent unauthorized individuals from initiating or modifying a transfer. Each user initiating or approving bank transactions must have a separate banking user id.
- Define the process for creating, securing, sending and authenticating direct deposit transmittal files to prevent unauthorized modification or submission.
- Adoption and implementation of computer standards, policies and procedures to protect the computers and computing processes used for EFTs from computer malware.
- Policies and procedures should be in place to validate these authorization to protect resources being transferred electronically.

We will assess the issues at [\[LOR Summary\]](#) and issue a recommendation here [\[Electronic fund transfers - disbursements\]](#).



# City of Clarkston

## E.3.PR.G - Self-Insurance

**Procedure Step:** Individual Self-Insurance of Unemployment Compensation Risks

**Prepared By:** TLJ, 12/8/2021

**Reviewed By:** HVB, 1/18/2022

Purpose/Conclusion:

**Purpose:**

To determine if the local government has controls effective to fund future unemployment claims.

**Conclusion:**

We determined the local government has controls effective to fund future unemployment claims.

Testing Strategy:

**Applicability:**

This step *applies* to local governments that are *individually* insuring all or a portion of their own unemployment compensation benefits.

This step *does not apply* to:

- Joint self-insurance purchased through membership in a risk pool
- Self-insurance of workers' compensation benefits
- Self-Insurance of employee health and welfare benefits
- Self-Insurance of property & liability risks

**Background**

Local governments are designated by the Employment Security Department (ESD) in one of two categories: Taxable or Reimbursable. Regardless of the category, the ESD processes all unemployment claims submitted against the entity, so local governments will never be responsible for processing and approving claims. However, local governments must pay all claims submitted to them from the ESD.

**Taxable**

The local government (employer) is assigned a rate and pays quarterly based on wages paid to employees. Rates are reassessed annually by the ESD. This status is not considered self-insurance and should not be audited using these procedures.

# City of Clarkston

## **Reimbursable**

The employer must request and be approved for this status by the ESD. Employers report quarterly wages to the ESD, but only pay claims when an unemployment claim is filed, approved, paid by the ESD and then submitted to the employer by the ESD to be paid (reimbursed).

SAO considers the reimbursable status to be self-insurance, regardless of whether the entity sets aside funds for unemployment claims. As such, entities on the reimbursable status should be audited using these procedures. We expect all local governments on the reimbursable status to have controls in place to estimate and set aside funds for future unemployment claims. Unemployment claims are infrequent in nature, sometimes unpredictable, and the dollar amounts associated are typically less significant. Many entities set funds aside in the budgeting process, including it as a line item based on prior year(s) payment history. Although unemployment claims are typically insignificant, estimating and setting aside funds for future claims could prevent future financial hardships in the event of large and/or unexpected claims.

## **REQUIRED PROCEDURES**

To determine if the local government's individual self-insurance program meets expectations for best practices, **perform** the following procedures:

- Verify that the entity is indeed on the reimbursable status with the Employment Security Department (ESD). Evidence of this is if the entity receives invoices from the ESD (quarterly) for claims filed against the entity and pays the ESD for these claims.
- Gain and document an understanding of the entity's processes and controls to estimate and set aside funds for future unemployment claims. If the entity has a policy, codes, ordinances or other formal requirements covering these activities, audit for compliance with these requirements (e.g. in some cases, a minimum budgeted amount or fund balance if reported in an internal service fund is required by policy). Compare historical actual claims to budgeted claims in prior years to determine if the entities controls are adequate. Consider at least the last three years in this analysis.

*Note: Prior guidance suggested that entities self-insuring for unemployment compensation should have policies in place for reserving, settling, and adjusting claims, and for a periodic review of case reserves. However, this is no longer an expectation as these types of activities would not be readily applicable to how most clients participate in ESD's reimbursable status option. Auditors should consider this change in guidance if there are prior audit recommendations relating to policies for reserving, settling and adjusting claims, and periodic reviews of case reserves.*

- Ask if the ESD has performed any reviews or audits of the entity recently. If so, review the results and consider any risks or issues identified. Brainstorm responses to risks or issues with an SME, if they are encountered. This is a rare occurrence, so most likely there will not be anything recent.

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Guidance/Criteria:

## **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **Self-Insurance and Risk Pools Planning Guide**

## **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**BARS [3.4.9](#) Risk Management Principles (GAAP)** - includes guidance on accounting, disclosures and reporting, including Schedule 21

**BARS [3.8.1](#) Unemployment and Deferred Compensation**

**BARS [4.8.9](#) Schedule 21 Risk Management** - required for all local governments to report self-insurance programs, includes reporting instructions

Record of Work Done:

## **AUDIT PLAN**

### **Background**

We identified descriptions and discussed risks and the audit plan during our brainstorm conference here [Brainstorm Conference + Audit Plan](#).

### **Audit Risks**

The City self insures for Unemployment Benefits (in FY19 & FY20). Self insurance is required to be reviewed every two years. There is risk the City does not have adequate reserves for self insurance programs.

### **Audit Plan**

- Use TM testing strategy for Self-insurance - unemployment compensation.
- Record your results.

## **REQUIRED PROCEDURES**

## City of Clarkston

To determine if the local government's individual self-insurance program meets expectations for best practices, **perform** the following procedures:

- Verify that the entity is indeed on the reimbursable status with the Employment Security Department (ESD). Evidence of this is if the entity receives invoices from the ESD (quarterly) for claims filed against the entity and pays the ESD for these claims.

The City is on a reimbursable status from our review of the vendor trend here [Vendor Trend](#) and copies of the paid ESD quarterly claims for fiscal years 2019 and 2020 provided by the Deputy Clerk Treasurer, Erica Fisher.

- Gain and document an understanding of the entity's processes and controls to estimate and set aside funds for future unemployment claims. If the entity has a policy, codes, ordinances or other formal requirements covering these activities, audit for compliance with these requirements (e.g. in some cases, a minimum budgeted amount or fund balance if reported in an internal service fund is required by policy). Compare historical actual claims to budgeted claims in prior years to determine if the entities controls are adequate. Consider at least the last three years in this analysis.

The City does not have a written policy that details its processes and controls to estimate and set aside funds for future unemployment claims. Prior guidance suggested that entities self-insuring for unemployment compensation should have policies in place for reserving, settling, and adjusting claims, and for a periodic review of case reserves. However, this is no longer an expectation as these types of activities would not be readily applicable to how most clients participate in ESD's reimbursable status option.

During the City's annual budgeting process, Steve evaluates the previous year's unemployment claims and takes into consideration a variety of factors such as external events and ensures there is enough funds set aside within the operating fund to cover potential claims. Steve also noted that even though there were historically increased claims in FY2019 and FY2020, the City had adequate unassigned funds to cover potential unemployment claims. No issues noted.

Year	Number of Claims paid during the period.	Total amount of recoveries during the period.	Budgeted Claims	Unassigned / Unreserved Fund Balance	Actual Claims	Concerns or risks noted?	Auditor Notes
2018	1	0	\$2,000	\$6,488,396	\$18.58	No	No issues noted.
2019	5	3	\$5,000	\$9,418,121	\$22,725.43	No	Per Steve, in FY2019 there

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							was an increase of claims specifically related to an employee who went on medical leave and resigned and started drawing unemployment from the City.
2020	3	0	\$5,000	\$1,914,617	\$57,903.44	No	Significant increase in claims due to COVID-19 pandemic.

- Ask if the ESD has performed any reviews or audits of the entity recently. If so, review the results and consider any risks or issues identified. Brainstorm responses to risks or issues with an SME, if they are encountered. This is a rare occurrence, so most likely there will not be anything recent.

Per inquiry with Steve and Erica, ESD has not performed any reviews or audits of the City in recent years.

### **CONCLUSION**

We determined the local government has controls effective to fund future unemployment claims.

### **E.4.PRQ - IT - User Access**

***Procedure Step:*** Background & Audit Plan (Patch Management)

***Prepared By:*** TLJ, 11/16/2021

***Reviewed By:*** HVB, 1/10/2022

Purpose/Conclusion.\*

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**Limited Distribution - This record contains information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.**

### **Purpose/Conclusion:**

To summarize descriptions, audit risks, and the audit plan as defined in the brainstorm conference here [Brainstorm Conference + Audit Plan](#).

Testing Strategy:

Summarize descriptions, audit risks, and the audit plan as defined in the brainstorm conference.

Guidance/Criteria:

Record of Work Done:

**Limited Distribution - This record contains information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.**

### **Background:**

We identified descriptions and discussed risks and the audit plan during our brainstorm conference here [Brainstorm Conference + Audit Plan](#).

### **Audit Risks:**

- There is a risk that users have excessive rights to modules because Vision's user access is based on two settings: read-only or full access. Therefore, any user with full access to a module can perform all functions within that module.
- There is risk local governments are not evaluating user access timely due to the lack of reporting capabilities from the system.

### **Audit Plan:**

- Obtain the user access reports for each key module. We would expect only current employees assigned to those activities have access.
- Because users cannot be deleted from the Vision system to ensure the integrity of historical transactions (i.e., Audit Trails and Logs), confirm that the local government has methods of removing terminated employees from their network (i.e., Active Directory).
- Review policies related to user access and gain an understanding of the local government's periodic review of user access.
- Vision recommends local governments provide Vision Tech Support a list of all active personnel with job duties associated for each module and request any unlisted personnel to be set to inactive. Local government should obtain written confirmation, or other proof, such actions were taken from Vision Tech Support.
- Record your results.

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## E.4.PRQ - IT - User Access

*Procedure Step:* User Access  
*Prepared By:* TLJ, 12/14/2021  
*Reviewed By:* AMS, 2/19/2022

Purpose/Conclusion.

**Limited Distribution - This record contains information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.**

**Purpose:** To determine whether the City has adequate User Access controls to ensure General Ledger Integrity.

**Conclusion:** We determined the City has adequate User Access controls to ensure General Ledger Integrity, with the exception of the following concerns:

- The City did not establish policies or procedures related to user authentication and user access
- The city does not periodically evaluate or review User Access
- The City does not have any procedures to review/monitor high/level super user activity
- The City uses its software vendor for its IT Service needs. The City does not retain control of, nor monitor, vendor access.

Testing Strategy.

Guidance/Criteria.

Record of Work Done.

**Limited Distribution - This record contains information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.**

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## **General Understanding (Vision User Access)**

- The City uses the following Vision modules as documented at: Key Software Applications
  - Accounts payable
  - Accounts receivable
  - Budget
  - General ledger
  - Business licenses
  - Payroll
  - Receipting
  - Utilities
- The City's user access reports for each module can be seen here: (Limited Distribution - PBC: User Access Report)
- The City has four employees who have access to Vision
  - Steve Austin, Clerk Treasurer
  - Erica Fisher, Deputy Clerk Treasurer
  - Marcie Bayless, Deputy Clerk Treasurer
  - Rachel Frost, Finance Clerical Assistant
- Per review of the user access report, Steve Austin is the only super user.

## **Planned Procedures**

Our planned procedure steps were obtained from the "Vision MS System Review" Word document prepared by SAO IT Audit to address Vision user access risks.

- Obtain the user access reports for each key module. We would expect only current employees assigned to those activities have access. We obtained a user access report for each key module and noted that the each employee is assigned to the activity they have access to. See user access report here: Limited Distribution - PBC: User Access Report . We confirmed only current employees assigned to activities have access.

Because users cannot be deleted from the Vision system to ensure the integrity of historical transactions (i.e., Audit Trails and Logs), confirm that the local government has methods of removing terminated employees from their network (i.e., Active Directory).

Per our inquiry with City Clerk Treasurer Steve Austin, employees are only removed when requested by the City. When an employee is terminated, Steve will notify Vision immediately after termination to ensure the employee's access is removed from the system. Once the request is complete, Steve will review the access report to ensure changes are accurate and complete. Per our review of the payroll trend and confirmation with Steve, there has been no employee turnover since the City's implementation of Vision as there IT support/service provider.

Review policies related to user access and gain an understanding of the local government's periodic review of user access.

Per Steve, the City contracts with Vision to provide general IT GL support. For this reason, the City does not have any of its own written policies



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and procedures over user access. User access review is conducted ad-hoc when an employee is either hired, terminated, or when duties change. The City's original contract with Vision can be seen here: [PBC: Clarkston Software Signed Contract 10-27-09](#) and subsequent IT support contracts can be seen here (which began in FY2018, see: [PBC: Clarkston Software Signed Contract 150619-01](#) and [PBC: Clarkston 2018 vCare](#)).

We noted the following exceptions:

- The City did not establish policies or procedures related to user authentication and user access
- The City does not periodically evaluate or review User Access
- The City does not have any procedures to review/monitor high/level super user activity
- The City uses its software vendor for its IT Service needs. The City does not retain control of, nor monitor, vendor access.

Vision recommends local governments provide Vision Tech Support a list of all active personnel with job duties associated for each module and request any unlisted personnel to be set to inactive. Local government should obtain written confirmation, or other proof, such actions were taken from Vision Tech Support.

Per Steve, when the City first implemented Vision support in fiscal year 2018, there were only three employees who needed access to Vision modules - the previous Clerk Treasurer and two Deputy Clerk Treasurers. Since then, modifications only occur ad-hoc such as when a new employee is hired or no longer employed with the City. As this action occurred outside of our audit scope we will pass on further review.

### **Conclusion**

We determined the City has adequate User Access controls to ensure General Ledger Integrity, with the exception of the following concerns:

- The City did not establish policies or procedures related to user authentication and user access
- The City does not periodically evaluate or review User Access
- The City does not have any procedures to review/monitor high/level super user activity
- The City uses its software vendor for its IT Service needs. The City does not retain control of, nor monitor, vendor access.

We will assess the issue at [[Limited Distribution - IT LOR Summary](#)] and issue a recommendation at [[Limited Distribution - User access](#)].

### **E.5.PR.G - Concluding Accountability Audit Procedures**

*Procedure Step:* Prior Findings - Local Govt

*Prepared By:* TLJ, 12/29/2021

*Reviewed By:* HVB, 1/10/2022

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Purpose/Conclusion.

### **Purpose/Conclusion:**

The Summary Schedule of Prior Audit Findings is not applicable; there are no prior accountability audit findings for follow-up

Testing Strategy.

The following procedures are **required** to complete and evaluate the Summary Schedule of Prior Audit Findings for local government accountability audits, if applicable:

- Identify all prior audit findings and link to where follow-up work was documented in TeamMate. Normally, follow-up work will be a planned audit area that can be referenced. However, procedures may be documented in this step if follow-up work was not performed elsewhere or if additional procedures are needed to verify a particular assertion in the description of the status provided by the entity.
- Use the template provided in TeamMate (Audit Administration | Wrap Up) or ORCA to draft the schedule, excluding the corrective action and status sections which are prepared by the entity.
- Use the template provided in TeamMate (Audit Administration | Wrap Up) to request the auditee complete the schedule with the status and description of corrective action **on their own letterhead (preferably in Word)**.
- Review the status and description of corrective action provided by the auditee and compare it with the results of follow-up work. If information is misleading or inaccurate, request the auditee modify the information. If the auditee refuses to correct the inaccurate information, contact your Assistant Director and TAS to determine whether to report this as a finding.

*Definitions for each status are listed in Tracker and the ARS Manual Part 5, Chapter 4. When evaluating the reported status, auditors should **consider**:*

- *To what extent does the previous condition continue to exist?*
  - *What actions were taken by the government and what remedial effect (if any) did they have on the condition?*
  - *Whether the condition or recommendation is repeated in part or whole as part of the current audit. Note: prior audit findings that are not corrected or partially corrected would imply the need to re-issue the finding in the current audit.*
  - *In situations where a prior audit finding is not re-issued, there may still be issues or control deficiencies that are communicated as management letters or exit items. However, the finding-level issues would be considered fully corrected for purposes of the schedule.*
- Upload the completed schedule to the Audit Review Library along with your audit report
  - Update the Audit Status in Tracker for each prior audit finding and management letter with the verified status of the issue and the number of consecutive years it has been repeated at that reporting level.

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*If the Entity Reported Status has changed upon audit, auditors should encourage the client to update it by copying the description in the schedule or including an abbreviated or expanded version. However, it is not the auditor's responsibility to ensure it is updated if the client does not take this opportunity.*

Guidance/Criteria.:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**ARS Manual [Part 5, Chapter 4](#)** - describes requirements for the Summary Schedule of Prior Audit Findings

**[Tracker Quick Reference Guide](#)** - provides auditor instructions about updating Tracker

Record of Work Done.:

The Summary Schedule of Prior Audit Findings is not applicable; there are no prior accountability audit findings for follow-up.

### **E.5.PR.G - Concluding Accountability Audit Procedures**

***Procedure Step:*** Changes to AC Audit Plan

***Prepared By:*** TLJ, 12/29/2021

***Reviewed By:*** AMS, 2/19/2022

Purpose/Conclusion.:

#### **Purpose:**

To document changes in the audit plan and determine whether changes caused audit objectives not to be met.

#### **Conclusion:**

No changes were necessary to the audit plan.

Testing Strategy.:

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To evaluate any changes to the original plan, auditors are **required** to:

- Document any changes to the original audit plan.

*Changes made during the course of the audit should be differentiated from the original audit plan. These changes may be documented in the Record of Work Done below or as part of the original audit plan (ex: using a different font color or listing the changes in a separate section of the original plan). For changes that result in a new engagement letter or addendum in accordance with policy 2140 and 1220, refer to the Engagement Letter step in Teammate.*

- Determine whether changes to the original audit plan support audit objectives.

*Auditors should consider:*

- *Possibility for a significant issue in any areas not completed*
- *Sufficiency of procedures to conclude on the existence and extent of any significant issues in areas where exceptions or new risk information was noted*
- *Any needs for an unplanned area to be tested based on new risk information gained during the course of the audit*

*In making this determination, the lack of budget would not be a valid reason for dropping a planned area. Rather, the team must either conclude that the likelihood of a significant issue is reasonably low, or - if team management determines that more work may be necessary to achieve the audit objectives - the budget should be adjusted in accordance with requirements of Audit Policy 1220 as necessary.*

*Audit risk for certain areas may be able to be addressed through other engagements or mitigated through further inquiries or reporting the potential risk to the government and recommending internal review or other follow-up.*

*Auditors should consider whether permanent file information needs to be updated to capture any significant new information discovered during the course of the audit.*

If the audit is **terminated** before completion, auditors should follow Audit Policy 1220 and document the work done, the decision and reason for termination, and any communications.

Guidance/Criteria.*
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

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**SAO Audit Policy [1220](#) - Engagement Cost Management**

**SAO Audit Policy [4210](#) - Planning Accountability Audits**

**[Accountability Audits](#) area guide**

Record of Work Done.

We continued to consider planning decisions throughout the audit based on conditions encountered, test results, and additional information obtained. Our continuing consideration included re-evaluation of:

- Identified risks
- Planned audit areas
- Staffing and independence
- Other elements of our overall audit strategy, such as scope and needed resources

We made no substantive changes to the plan

## E.5.PR.G - Concluding Accountability Audit Procedures

***Procedure Step:*** AC Summary & Report

***Prepared By:*** TLJ, 12/29/2021

***Reviewed By:*** AMS, 2/19/2022

Purpose/Conclusion.

### **Purpose:**

To determine (1) if audit evidence is sufficient and appropriate to support our accountability report and (2) the audit results to be included in our report.

### **Conclusion:**

We determined that audit evidence is sufficient and appropriate to support our accountability report and the audit results to be included in our

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report.

Testing Strategy:

Auditors are **required** to perform the following procedures to determine whether evidence is sufficient and appropriate and determine the content of our audit report:

### **(1) Evaluation of Evidence Obtained**

- **Completion of audit work:** Check that all accountability work is completed.

*Reminder: all work supporting the report must be completed and reviewed prior to the date of our audit report. This includes any referenced work documented in other audits or sections.*

- **Identified risks:** Determine whether risks identified in planning and during the audit were adequately addressed in documented audit procedures.
- **Audit evidence:** Determine whether procedures and results provided audit evidence of an appropriate quality and in a sufficient extent to support the report.

*"Sufficient" refers to the amount of evidence obtained; "appropriate" refers to the quality of the evidence; "quality" refers to applicability of the evidence to the audit objective.*

*If evidence is not sufficient or of an appropriate quality to conclude on a particular area, the auditor should perform further tests or procedures to obtain the necessary evidence.*

- **Communication with the Governing Body:** Evaluate whether two-way communication with those charged with governance has been adequate for the purpose of the audit. If not, there is a risk that all of the audit evidence required to support the audit report has not been obtained. In such cases, the auditor should take appropriate action to address the effectiveness of the communication prior to reporting.

*The objective of this evaluation is to consider whether we have all the information we need from the governing body before issuing the report. While an exit conference (or planned exit conference) may be necessary in some circumstances to obtain or confirm views of the governing body, the auditor may conclude that communication is adequate and the report may be issued prior to the exit conference.*

*In evaluating communication, auditors should consider:*

- *Whether the audit results in findings or there were difficulties or disagreements during the course of the audit that necessitate specific communication with the governing body*
- *Whether the views of the governing body are important to any key audit evidence*
- *The apparent awareness and understanding of the governing body to any critical issues or business risks identified by the audit*

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- *The apparent openness of the governing body in their communications with auditors and their willingness and ability to meet with auditors*
- *The apparent level of communication by management with the governing body regarding the audit*
- *Whether any members of the governing body have expressed interest or concern about any audit areas or issues*

### **(2) Accountability Report**

- Determine the reporting level of audit issues.
- Check the Description of Entity and Officials sections with the audit liaison and work with your manager on any questions about necessary report content.

### **(3) Report Preparation & Distribution**

- Prepare the audit report using ORCA and the ARS manual.
- Review report distribution in ORCA to ensure standard distribution and distribution to any additional parties that may need to be informed of the audit.
- Route Findings and Management Letters to the appropriate personnel.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [4410](#) – Accountability Reporting**

**SAO Audit Policy [2310](#) – Reporting Identified Audit Issues**

**[Audit Reporting Standards Manual](#) (ARS) - refer to ARS manual for details regarding audit report contents and preparation**

Record of Work Done:

### **(1) Evaluation of Evidence Obtained**

We determined that sufficient, appropriate evidence was obtained and documented in order to support our audit report. In making this determination, we:

- **Completion of work:** checked that all accountability work was complete.

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- **Identified risks:** checked that risks identified in planning were adequately addressed by documented audit procedures.
- **Audit evidence:** considered quality and amount of audit evidence, in relation to identified risks.
- **Communication with governing body:** considered sufficiency and effectiveness of our communication with management and those charged with governance.

### **(2) Accountability Report**

We analyzed accumulated issues in the attached LOR Summary [[LOR Summary](#)]. Based on our audit and consideration of results at both individual and aggregate levels, we determined reporting level of audit issues and determined content of our audit report.

### **(3) Report Preparation & Distribution:**

Report preparation, technical report review, issuance, distribution, and the final official version of the report is documented in ORCA and the ARTS database.

Standard report distribution will include the audit liaison (on behalf of the government's management and governing body), representatives of oversight bodies and other officials as appropriate. Report distribution will not be limited. The report will be published on our website and further distributed by email to any parties with applicable subscriptions.

### **E.5.PR.G - Concluding Accountability Audit Procedures**

*Procedure Step:* AC Letter of Representation

*Prepared By:* TLJ, 12/29/2021

*Reviewed By:* HVB, 1/10/2022

Purpose/Conclusion.*
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#### **Purpose:**

To confirm the continuing applicability of management's explicit or implicit representations and reduce the possibility of misunderstanding.

#### **Conclusion:**

Entity management provided a signed letter with all appropriate representations.



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### Testing Strategy:

*Auditors must either (A) obtain and review the representation letter on the report date or (B) confirm with management on or before the report date that the representation letter will be signed without exception, in which case the letter may be obtained and reviewed any time before report issuance.*

#### **STEP 1: Identify necessary representations**

Using the TeamMate template letter located in the SAOStore (Audit Administration | Audit Wrap-Up folder), determine the applicable written representations needed from management for all periods covered by our audit report. Auditors should use one of the following templates:

- **GAAP** – use for all GAAP presentations (including ESDs and GAAP basis school districts)
- **BARS Cash Basis** – use for all governments that are reporting on a BARS Cash Basis or that do not prepare financial statements.
- **School F196** – use for all school districts that report using the F196 on a cash or modified accrual basis.

The template should be modified as needed to reflect the audit scope and situation.

*The "general representations" section should be included in all situations; other sections should be deleted if unneeded. For example, auditors should delete the "additional representations related to the financial statements" section if a financial statement audit is not done or when issuing an opinion on single audit work at a later date than the financial statement opinion.*

Consider whether any additional representations need to be obtained beyond the standard representations included in the template and modify the template as needed. Contact TAS if you need assistance regarding any additional representations that may be needed.

*The following are common examples of additional representations (see also AU-C 580, Exhibit B):*

- *The government has used the work of a specialist, such as for determining environmental remediation, pension, OPEB, self-insurance or landfill obligations.*
- *The government has changed accounting principles.*
- *Supplementary information is being presented (such as ACFR or grant schedules).*
- *Financial circumstances are strained and we are reporting either an emphasis of a matter or going concern paragraph.*

#### **STEP 2: Request letter of representation**

Auditors should request the letter of representation by letter or email using the template located in the SAOStore. Since representations include reference to uncorrected misstatements (if any), the auditor's final list of uncorrected misstatements should either be included in the letter or attached.

If an updated letter is needed, auditors may either request a new letter of representation with the correct date or may request an updating letter which refers to the original letter of representation.

#### **STEP 3: Review representations**

Obtain and review the representation letter to ensure:

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- All representations were properly made and are consistent with expectations
- It is dated as of our report date
- It is signed by appropriate members of current management.

*The representation letter must be dated as of the report date. However, the letter may be received after the report date so long as it is obtained before issuing the report.*

*The letter should be signed by members of management with overall responsibility of financial and operating matters who are responsible and knowledgeable about, directly or through others in the entity, the matters covered in the representations. Generally, the letter is signed by the chief executive officer (e.g. city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer).*

*When such persons were not present during all periods referred to in the letter, they may claim they are not in a position to provide some or all of the representations. This fact, however, does not diminish management's responsibilities and would not be a reason for the auditor to accept this risk or responsibility.*

Guidance/Criteria.\*

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **SAO Audit Policy [3420](#) - Management Representation Letters**

Record of Work Done.\*

We completed this in conjunction with the Financial Statement step, see FS Letter of Representation step at [[FS Letter of Representation](#)].

### **E.5.PR.G - Concluding Accountability Audit Procedures**

**Procedure Step:** AC Exit Conference

**Prepared By:** TLJ, 12/29/2021

**Reviewed By:** HVB, 1/10/2022

Purpose/Conclusion.\*

# City of Clarkston

## **Purpose / Conclusion:**

To communicate the results of our audit with management and those charged with governance.

Testing Strategy:

*If no exit conference was held or if the report was issued prior to the date of the exit conference, explain the situation in this step (and in the Exit Conference Explanation field in the Custom tab of the Profile) and document how the auditor ensured that adequate communication with management and elected officials occurred.*

## **Pre-Exit Meetings:**

If pre-exit or departmental exit conferences are held, the official handout (if any) should be attached and the meeting documented in this step. Attachments for pre-exit or departmental exit meetings should be clearly labeled to distinguish them from the official exit conference.

## **BEFORE the Exit Conference:**

- Communicate with management as to who will attend the exit conference and arrange for a convenient time and location for the exit conference.
- Invite elected officials to the exit conference (approved invitation letter templates are available in the SAOStore).
- Prepare the exit conference handout using the template available in the SAOStore and the [Exit Conference PowerPoint](#) using the linked template (also available in the Auditor Reference Guide).

*Note: management letter, finding and status of prior audit finding templates are also available in the SAOStore, if needed.*

- Prepare a separate handout for exit items and share these items with management prior to the exit conference along with any draft management letter or finding issues.

*Exit items are referenced, but not included, in the exit conference document. Auditors should bring the handout to the exit and be prepared to discuss exit items if requested.*

***NOTE:** Communication of IT security matters are highly sensitive, Washington OCIO [category 3](#) information. Please mark IT Security exceptions in TeamMate with **"This record contains information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited."** IT security details should never be sent via Email.*

***Recommendation Review Requirement** - IT Security related information, that an external party may use to manipulate the government's system or security-related procedures, is protected by Public Request Exemption RCW 42.56.420. All IT security-related recommendations must be reviewed by [Team IT Audit](#). [IT Recommendation Procedures](#) are located in Team IT Audit's Support Workgroup folder. Template language for common IT related recommendations can also be found in the [ARS manual Part 5 Chapter 8](#).*

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- For financial statement audits, print a schedule of uncorrected misstatements from the Aggregation of Misstatements spreadsheet to attach to the exit handout. Also attach a copy of the Management Representation Letter.
- Plan the presentation of audit results by considering the following:
  - Who will attend from SAO?
  - Who will present each section?
  - Detail of audit scope?

### **DURING** the Exit Conference:

- Present Exit conference handout. The conference must include discussion of significant audit results, such as:
  - All non-trivial uncorrected misstatements. Auditors should attach a schedule of uncorrected misstatements by following the printing instructions on the Aggregation of Misstatements spreadsheet.
  - Any material corrected misstatements, if not already reported as part of a significant deficiency or material weakness finding.
  - Representations requested from management. A copy of the Management Representation Letter should be attached.
  - Significant disagreements with management and their resolution.
  - Significant difficulties encountered during the audit.
  - Our views on significant questions that management consulted with other CPAs about.
  - Any other significant issue related to the governing body's financial reporting responsibilities.

### **AFTER** the Exit Conference:

- Document the conference attendees (SAO and entity) in the Record of Work Done.
- Send copies of the exit document to any elected officials who were not able to attend the conference (do not include the handout of exit items).
- Include the official exit document and handout of exit items in the AS2 Team Reports folder.

*Note: When attaching the exit conference PowerPoint presentation, consider attaching as a PDF file to minimize file size.*

- Ensure that exceptions documented in TeamMate match the official handout of exit items, management letter and findings, as applicable.

*The final exit conference document, handout of exit items, management letters and findings should be attached at AS2: Team Reports.*

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Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [2130](#) - Inviting Officials to Entrance and Exit Conferences**

**SAO Audit Policy [2220](#) - Conducting Exit Conferences**

**SAO Audit Policy [2310](#) – Reporting Identified Audit Issues**

Record of Work Done:

We completed this in conjunction with the Financial Statement Audit - See FS Exit Conference step at [[FS Exit Conference](#)].

### **E.5.PR.G - Concluding Accountability Audit Procedures**

***Procedure Step:*** AC Quality Control Assurance Certification

***Prepared By:*** TLJ, 12/29/2021

***Reviewed By:*** AMS, 3/22/2022

Purpose/Conclusion:

### **Purpose / Conclusion:**

To review and certify adherence to applicable audit standards and policy with regard to the Accountability audit.

Testing Strategy:

This step should be signed-off by the Auditor-in-Charge, the Assistant Audit Manager, and the Audit Manager. The Quality Control Assurance Certification should be signed-off **before** the Accountability audit report is issued.

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**If a requirement does not apply, it should be noted on the certification. If a requirement was not met an explanation needs to be documented and approved by the Audit Manager.** No other modifications to the form should be made. It is not necessary to reference applicable sections of the certification to the audit documentation.

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

### **SAO Audit Policy [3430](#) – Quality Control Assurance Certification**

Record of Work Done:

### **Quality Control Assurance Certification**

*The certification must be signed-off **before** the Accountability audit report is issued.*

### **Auditor in Charge Statements**

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).
2. I informed assistants, if any, of responsibilities and objectives of the procedures they were planned to perform and all relevant information related to those responsibilities (Audit Policy 3160).
3. I monitored the audit budget compared to actual audit hours and requested approval in advance from the supervisor and Audit Manager if additional audit hours were needed (Audit Policy 3160).
4. I promptly informed my supervisor of potential audit issues encountered (Audit Policy 3160).
5. I informed my supervisor of modifications to the audit plan (Audit Policy 3160).
6. Work performed was documented in accordance with Audit Policy 3310.
7. I reviewed audit documentation prepared by assistants to ensure work was adequately performed and properly documented (Audit Policy 3160).
8. I promptly resolved any coaching notes (Audit Policy 3160).
9. Sufficient and appropriate audit evidence was obtained and evaluated to ensure that specific audit objectives were achieved (Audit Policy 3210).
10. Adequate communication with management and the governing body occurred prior to issuance of the report, including all information required to be discussed by Audit Policies 2120, 2210 and 2220.

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## **Assistant Audit Manager (Supervisor) Statements**

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).
2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).
3. I ensured that all coaching notes were resolved (Audit Policy 3160).
4. I informed the Audit Manager of significant problems or audit issues (Audit Policy 3160).
5. I agree with the certification statements made by the auditor-in-charge.

## **Audit Manager Statements**

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).
2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).
3. I requested approval for audit budget changes from the Director or delegate (Audit Policy 1220). Also, I communicated audit budget changes to Team Financial Services.
4. In my opinion, the staff assigned to conduct each engagement collectively possess adequate professional competence for the tasks required (Audit Policy 3140).
5. I immediately informed the Director or delegate if the report was anticipated to be issued 30 days or more after the timeliness goals established in Audit Policy 2320.
6. The protocol for findings and management letters as outlined in Audit Policy 2310 was followed.

## **F.1.PRG - BARS Cash Basis**

***Procedure Step:*** Entity Operations - BARS Cash Basis

***Prepared By:*** TLJ, 9/8/2021

***Reviewed By:*** HVB, 10/21/2021

Purpose/Conclusion.\*

**Purpose:**

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To gain an understanding of the entity and its operations sufficient to plan and perform the audit and identify items to consider in assessing audit risks.

### **Conclusion:**

Based on our understanding of the entity and its operations, we noted **no** potential risks.

### Testing Strategy:

Auditors are **required** to document an understanding of the following items as necessary to supplement the general understanding of the government's operations and environment documented in the planning guide:

### **Joint Ventures and Related Parties (for disclosure purposes)**

- List any component units, joint operations, joint ventures, or jointly governed organizations along with any related parties other than officials and executive staff (who would be considered related parties, but aren't necessary to list in the permanent file).

*For definitions, see instructions for "Other Disclosures" in BARS Part 4, Chapter 5 and the Reporting Entity and Related Party Transactions steps. For purposes of the permanent file, auditors should list all organizations that would be considered component units, joint ventures, related parties, etc by their nature. Auditors will evaluate materiality of organizations and transactions in the Reporting Entity and Related Party Transaction steps for purposes of evaluating financial statement presentation and disclosure.*

- For each entity listed, briefly summarize a description of the entity, the nature of the relationship, how it is reported on the financial statements, any expected or routine transactions and any other relevant information (such as when it was last evaluated or if it has a separate audit by SAO or another CPA firm).

### **Key Operational Information**

Describe key information related to the government's operations as necessary to supplement the general understanding documented in the planning guide, such as:

- Any applicable items listed in the "Key Operational Information" section of the planning guide
- Description of governing body structure or alternative (if alternatives are possible)
- Major programs and activities, especially any optional or unique programs other than basic activities required by statute. Auditors should include information about activities that may be important to know when planning the audit, such as:
  - Brief description of unusual or unique programs and activities



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- Brief description of the scope of functions that can vary widely (ex: parks or tourism departments at Cities or Counties, number of separate systems for water, sewer or storm water operations, etc)
- Notes on any major function the government has contracted out or performs on contract for other governments (ex: courts, police, jail and juvenile detention at Cities and Counties)
- Notes on any public-private partnerships where the government contracts out the right and obligation to perform a public service, such as operating a toll bridge or wastewater treatment plant.
- Notes on any activities that are reliant on key suppliers, service providers, customers, specialized equipment, or technology / infrastructure at risk of obsolescence
- If useful, list or describe receipting locations and the types of revenues receipted at each location  
*If there are many locations, the auditor may want to refer to an attached list or cycling matrix. If the entity doesn't maintain a useful list, a template is available in the TeamStore.*
- If useful, list or description of expenditure systems.  
*The auditor may want to attach a cycling matrix or refer to an attached list of petty cash and imprest funds.*
- If useful, list or description of facilities related to certain activities (ex: number and type of fee-use facilities for a Park & Recreation District, number of leasable properties for a Port, number of libraries for a Library District or fire stations for a fire district).
- Use of any service organizations (Policy 6230), along with a description of the nature and significance of services provided.  
*Service organizations are separate entities that provide services to the government that include performance of controls. Service organizations are identified in this step to provide a basis for risk assessment and planning. However, service organization controls need only be understood and tested (or addressed with SOC reports obtained from the government) if they are identified later in the audit as key controls.*

### **Special Compliance Requirements and Policies**

Describe any unique compliance requirements or policies as necessary to supplement the general understanding documented in the planning guide. For example:

- Compliance requirements related to unique programs or activities
- Special compliance requirements related to material contracts or interlocal agreements
- Results of legal research on unique compliance questions or practices

### **Significant Accounting Policies and Practices**

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### **NOTE: if no financial audit is performed, this section can be skipped.**

Describe any unique accounting or reporting issues as necessary to supplement the general understanding documented in the planning guide. This would include:

- The basis on which the government keeps their accounting records and reports and:
  - Whether the accounting system uses the BARS chart of accounts or not
  - Any major system that accounts for transactions on a basis other than BARS Cash
- Any significant accounting policies or practices (*not* policy that re-iterate BARS manual guidance, *only* policies cover actual decisions or deviations). For example:
  - Any unusual use of internal service funds
  - Whether investments are reported at cost, amortized cost or fair value
  - Policy related to expenditure cut-off
  - Unusual accounting or reconciling items with the bank or county treasurer
  - Deviations from BARS.

*Any significant accounting policies should be disclosed in Note 1 of the financial statements. Material changes in accounting practices require evaluation and possible disclosure in our audit report (see Policy/Standards tab for details).*

- Results of any accounting research on unique accounting or reporting questions or practices.
- Unique considerations regarding measurement of financial condition or performance.
- List accounting estimates, if any.

*An accounting estimate is an approximation of a financial statement item, which may include certain items reported on the Schedule of Liabilities.*

### **Other Information**

The auditor should also **consider** including additional sections or information as necessary.

Guidance/Criteria:
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

See the **Reporting Entity Determination worksheet** available in the TeamStore for definitions and criteria for component units, related organizations, joint ventures, jointly governed organizations, undivided interests and related parties.

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## [Financial Statement Audits](#) Planning Guide

## [Accountability Audits](#) Planning Guide

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

**AU-C 708 Consistency of Financial Statements** - 708.07-11 describes the auditor's evaluation of changes in accounting principles and the effects of an accounting change on the auditor's report

Record of Work Done:
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We gained an understanding of the government's operations based on inquiry of management, observation and inspection during the course of the current and prior audits, along with review of the planning guide and other procedures performed as part of the planning steps. We noted the following key elements regarding the government and its environment in addition to our general understanding documented in the planning guide.

### **JOINT VENTURES AND RELATED PARTIES**

We have identified no component units, joint ventures, joint operations or jointly governed organizations, and related parties (other than government officials and their immediate families) which may need to be evaluated for note disclosure.

### **KEY OPERATIONAL INFORMATION**

We noted the following key information about the government's operations and environment in addition to our general understanding documented in the planning guide:

The City has a seven member Council that oversee legislative activity, enact ordinances, set policy and perform a high level review over the fiscal activity. The Council also has a three member Finance Committee that performs a detailed review of the expenditures and Treasurer's reports. The entire Council receives a detailed report from the Clerk/Treasurer each quarter. The City has an elected Mayor who is charged with the executive responsibilities of overseeing operations on a daily basis. The Clerk/Treasurer is responsible for monitoring the City's daily fiscal activities. The current C/T is Steve Austin, who was hired to that role in 2017, however, has been with the City at the Police Department prior to becoming the Clerk/Treasurer. From auditor observation and prior experience, we noted that the Mayor meets daily with the C/T and City staff. There appears to be very open communication between management, department heads, and staff on a daily basis.

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Through inquiry of Steve Austin, Clerk Treasurer and review of the City of Clarkston's website we found that key services include Public Safety (police, fire, EMS, ambulance), Sewer/Solid Waste, Streets, Parks, and Building and Code enforcement. The City does not maintain a court, jail, or juvenile services as these services are provided by Asotin County. The City has a Contract for Tourism Services with "Visit Lewis-Clark Valley" upon which Visit Lewis-Clark Valley submits copies of paid invoices and gets reimbursed by the City with a maximum annual amount determined in the contract. City services do not include public health services.

Nearly all receipting is done at City Hall. The Police Department does receive small amounts for report copies and deposit daily with City Hall. The Fire Department, on very rare occasions, receives donations by mail and deposit with City Hall.

The City of Clarkston does not use any service organizations to perform a key control or general controls over a key control for the financial statements.

### Use of Service Organizations:

We identified no service organizations relevant to the government's internal controls, which may need to be evaluated further if they are determined to have a key control. However, we noted the following billing/receipting relationships:

- EMS/Ambulance Billing: The city uses a company to send out and receipt billings. The City staff provides the company with the needed information and monitors all receivables to ensure all billing required is sent out and that all receipts are being applied to the bills. The company is not the key controls for this billing process, thus no service organization exists.
- Court Services: The City outsources their Court services to Asotin County through an interlocal agreement.

### **SPECIAL COMPLIANCE REQUIREMENTS AND POLICIES**

We noted no special compliance requirements or information in addition to our general understanding documented in the planning guide

### **SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

We noted the following key information about the government's accounting and reporting in addition to our general understanding documented in the planning guide:

- The government keeps accounting records and reports on a cash basis in accordance with the Cash Basis BARS Manual, which is a special purpose framework. Our understanding of the purpose, intended users and steps taken to ensure the appropriateness of this well-established framework is described in the BARS manual.

### Accounting Estimates:

We identified **the following** accounting estimates:

- The City does use accounting estimates for pension liability, OPEB Liability, and compensated absences, but these are reported consistently between years and are not based on highly sensitive assumptions or affected by year-to-year judgments made by management..

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## F.1.PRG - BARS Cash Basis

**Procedure Step:** Entity-Wide COSO Evaluation

**Prepared By:** TLJ, 9/8/2021

**Reviewed By:** HVB, 10/21/2021

### Purpose/Conclusion:

#### **Purpose:**

To gain an understanding of the five components of internal control (control environment, risk assessment, information and communications, monitoring and control activities) as they relate to the government as a whole and identify items to consider in assessing audit risks.

#### **Conclusion:**

We noted no deficiencies in the control environment that might undermine other control elements.

In addition, based on our understanding of entity-wide components of internal controls, we noted **no** potential risks.

### Testing Strategy:

Auditors are **required** to gain an understanding of the five components of internal control as they relate to the government as a whole.

*Auditors should consider recommendations at this point for any significant issues identified, in addition to identifying red flags and evaluating the impact of overall elements on control activities in individual systems.*

In evaluating COSO elements, auditors should specifically **consider** the following:

#### **Control Environment:**

- What key employees set the control environment at the government-wide level.
- Management integrity demonstrated in past experience with questions and issues.
- Involvement and oversight by the governing body.
- Whether management's philosophy and operating style promote accountability and effective internal controls.

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- Whether adequate training appears to be provided to key staff.
- Whether employees in key positions appear competent to perform their duties.
- Any exceptions, such as departments or major areas that are outside the influence of the government-wide control environment.

### Risk Assessment:

- What key employees are responsible for risk assessment at the government-wide level.
- Is the government's risk assessment process ad hoc, informal or formal? If not ad hoc, reference or document our understanding of the process and the results for the current period.

***Refer to the "Risk Assessment Inquiry" step for suggested questions to evaluate management's risk assessment. Our understanding of management's risk assessment process and results would normally be documented in this step (along with the "Other Engagements & FAWF" step for formal processes with internal audit work).***

*Ad hoc = No process to proactively identify, assess and respond to risks. Government relies on individuals to react to their own perception or assessment of risks within their assigned roles.*

*Informal = unstructured, undocumented and/or unscheduled processes to proactively identify, assess and respond to risks. For example, risk assessment may be assigned as a job to an individual or group, or it may be the subject of conversation or agenda items with the governing body or at management meetings.*

*Formal = structured, scheduled and documented processes to proactively identify, assess and respond to risks.*

- Whether the government generally appears to identify risks, reasonably assess such risks and take appropriate action. Auditors should specifically note if:
  - Audits are identifying risks that management should have – but failed to – identify.
  - Management tends to dismiss or overly discount the significance or likelihood of risks.
  - Management has not taken appropriate action, and the reasons for not doing so (ex: insufficient resources or other limitations, lack of consensus within the government, operational difficulties, etc).
- Any exceptions, such as departments or major areas that are not subject to the government-wide risk assessment.

### Information & Communications:

- Update the Key Software Applications spreadsheet and consider adequacy of accounting systems to meet information needs.

*Key software applications include general ledger software and other software that processes significant (volume or type) transactions that roll up into the general ledger or financial statements. Consider using the Risk Matrix tab to analyze for common risks associated with*

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software.

Upload the completed spreadsheet to the [Key Software sharepoint page](#). **Do not email** Key Software Applications spreadsheets. Note: Team LISA utilizes the Key Software tab only and does not require, nor review any of the risk matrix tabs. For assistance brainstorming risks for an entity or application, teams should request a meeting with IS Auditors through the IT Helpdesk.

- Whether official policy appears to be adequately communicated.
- Adequacy of reports and information available to managers and supervisors.
- Adequacy of communications between management and the governing body.
- Adequacy of communications with external parties as needed (such as regulatory agencies or service organizations).
- Whether the organizational structure generally appears to facilitate accountability, communication and resolution of issues.
- Any exceptions, such as departments or major areas with inadequate information systems or lack of communication with key personnel.

### Monitoring:

- What key employees are responsible for monitoring at the government-wide level.
- Whether there is an internal audit function. If so, auditors should consider:
  - Whether internal audit directly reports to the chief executive or governing body
  - Whether internal auditors follow professional standards, such as International Professional Practices Framework (IPPF or "Red Book") standards promulgated by the Institute of Internal Auditors (IIA), or Generally Accepted Government Auditing Standards (GAGAS or "Yellow Book") published by GAO.
  - The scope and focus of internal audit activities. If any relevant work was performed by internal audit, we should consider this work and results in the Other Engagements & FAWF step.
- Involvement and oversight by management and the governing board, as evidenced by inquiry, observation and minutes.
- Information used for monitoring activities and how management determines reliability of this information.
- Extent to which performance measures, budgets or other financial analysis is used for monitoring purposes.
- Any exceptions, such as departments or major areas not subject to - or resistant to - monitoring or internal audit.

*NOTE: Small and medium sized governments are likely to have more informal controls than large governments. For example, management may provide oversight through direct communication with staff rather than through formal processes. Informal means of control can be adequate for entities that are small and/or uncomplicated.*

Guidance/Criteria.*
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### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

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## SAO Audit Policy [6230](#) – Understanding Internal Control and Assessing Control Risk

### [Financial Statement Audits](#) Planning Guide

### [Accountability Audits](#) Planning Guide

[Green Book Independent Study](#) - SAO training that explains how Green Book and COSO internal control frameworks relate to our audits (although they are not authoritative for Washington state or local governments), also discusses authoritative control guidance for state and local governments in the SAAM or BARS manual

### **AUDIT CRITERIA**

Key criteria that auditors will likely use when testing this area.

[Green Book](#) - Internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. *Standards for Internal Control in the Federal Government*, known as the "Green Book," sets the standards for an effective internal control system for federal agencies.

Record of Work Done:
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We gained an understanding of the government's control environment, risk assessment, information/communications and monitoring as relevant to our audits based on inquiry of management, observation and inspection during the course of the current and previous audits, prior audit results and procedures performed as part of planning steps.

### **Control Environment**

We updated our understanding of the actions, policies, and procedures that establish a culture and reflect the overall attitudes of management and the governing body about internal control and noted the following:

- Clerk/Treasurer is aware and knowledgeable of changes in accounting standards and practices for financial statement preparation and takes an active role in ensuring fiscal integrity.
- Steve Austin is started in 2017 as Clerk/Treasurer. He has worked in other non-profit and governmental agencies and is aware of the requirements. He appears to be knowledgeable of how to use the BARS Manual and uses the SAO Helpdesk.
- In our time onsite in previous audits, we have noted that the staff works together and management's philosophy and operating style appears to promote accountability and effective controls.
- Through discussions with the new staff, it also appears that they are knowledgeable of there work areas and appear competent to perform their duties



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## **Risk Assessment**

We updated our understanding of management's identification, assessment and response to relevant risks and noted the following:

- Risk assessment is done **ad hoc**
- Management appears to identify risks as apparent in our Risk Assessment inquiry with Steve Austin, Clerk/Treasurer.
- We performed risk assessment inquiry with the Clerk/Treasurer, Mayor, and a city council member at [\[Risk Assessment Inquiry Questions\]](#)

## **Information and Communications**

We updated our understanding of communication processes and accounting systems and noted the following:

- Update the Key Software Applications spreadsheet and consider adequacy of accounting systems to meet information needs. [\[Key Software Applications\]](#)

*Key software applications include general ledger software and other software that processes significant (volume or type) transactions that roll up into the general ledger or financial statements. Consider using the Risk Matrix tab to analyze for common risks associated with software.*

*Upload the completed spreadsheet to the \\ssv.wa.lcl\sao\WORKGROUPS\TIA SUPPORT folder. For assistance brainstorming risks for an entity or application, teams should request a meeting with ITA - System Auditors through the [SAOHelpdesk](#).*

- Financial report have been submitted successfully and timely in prior years.
- During the prior audits, the Clerk/Treasurer has been able to provide adequate system reports upon request

## **Monitoring**

We updated our understanding of management's processes to evaluate the adequacy and effectiveness of the government's own internal controls and noted the following:

- The City does not have a formal internal audit function.
- The organizational structure promotes accountability and monitoring at the lowest level.
- Being a small City, the Mayor and Clerk/Treasurer have offices next to each other and through observation they work closely together.
- The Clerk/Treasurer has been with the City since before 2017. He keeps close communication with the State Auditor's office as well as utilizes the HelpDesk when he has a question.
- Through review of the minutes and on-site observation the Council members and Mayor are involved and informed of operational activities. The Mayor is heavily involved in the daily activities. During our previous risk assessment inquiry she noted that she attends various staff/committee meetings in order to gain a better understanding of the City processes.

## **Control Activities**

Control activities are the policies and procedures that help ensure necessary actions are taken to address control objectives. Relevant control activities are identified and evaluated separately for each system.

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### F.1.PR.G - BARS Cash Basis

**Procedure Step:** FS Controls - BARS Cash Basis

**Prepared By:** TLJ, 2/15/2022

**Reviewed By:** AMS, 3/16/2022

#### Purpose/Conclusion:

##### **Purpose:**

To gain an understanding of internal controls and assess control risk in order to help plan the nature, timing and extent of substantive testing.

##### **Conclusion:**

We have gained an understanding of internal controls over the significant accounting systems and determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level. Therefore, our final control risk assessment is MAXIMUM for all material balances.

We noted **no** material weaknesses. However, based on the results of our substantive work, we identified a **control deficiency** over the preparation of the financial statements, notes and schedules. We estimate the likelihood of misstatements are less than significant or material based on the existing controls. See exception at [Financial statement preparation] and LOR here: [LOR Summary]

#### Testing Strategy:

**This template should only be used for BARS Cash basis local governments. The template assumes controls will not be tested and that all control documentation can be efficiently documented in a single step. Auditors may want to use the "TEMPLATE – Internal Controls" step to document one or more systems if (a) many additional risks are identified, (b) significant deficiencies are noted, (c) controls are tested, or (d) documentation is extensive.**

The following procedures are **required** to gain an understanding of controls and assess control risk for all material systems:

1. Gain an understanding of internal controls over **financial statement preparation**, confirm key controls and note any control deficiencies.

*The period-end financial reporting process includes all steps associated with converting the general ledger or other source accounting records into the financial statements. See Appendix 2 of the Financial Statement Planning Guide for expected controls over*

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*financial reporting for BARS Cash Basis governments. If any of these expected controls is not in place or not operating effectively without adequate compensating controls, you should consider whether a significant deficiency or material weakness in controls over financial reporting exists.*

2. Gain an understanding of internal controls related to **risks covered by the cash flow reconciliation test**, confirm key controls and note any control deficiencies.

*The following are expected key controls over cash and cash activity. If any of these expected controls is not in place or not operating effectively without adequate compensating controls, you should consider whether a significant deficiency or material weakness in controls over financial reporting likely exists.*

- *Total ending balance in all bank accounts is reconciled to the total cash and investments recorded in the GL.*

*We would expect that the reconciliation process encompasses all bank, investment and County Treasurer and fiscal agent accounts (including clearing or other zero balance accounts), with any petty cash, change or imprest funds included at its authorized amount.*

*As a matter of convenience, entities will often reconcile their "main" account or accounts to the general ledger, and then separately reconcile investment, zero-balance and agency or special-use accounts. This is acceptable so long as separate reconciliations are either combined or otherwise results in a complete accounting of reconciling items between bank accounts and the general ledger.*

- *Total activity in all bank accounts is reconciled to the total revenue and expenditures recorded in the GL.*

*If a reconciliation of revenues and expenditures is not being done, we would expect adequate compensating controls to be in place to ensure that revenues and expenditures are recorded accurately. Compensating controls might include independent review of all journal entries, reconciling selected revenue sources to source documents (such as OST or grant revenues), reconciling reported expenditures to board approvals per the minutes, and/or detailed financial analysis of revenues and expenditures at year end.*

3. Gain an understanding of internal controls related to **additional risks** identified in planning, confirm key controls and note any control deficiencies.

*For each additional risk identified in planning, the auditor needs to identify the significant accounting system related to that risk, gain an understanding of controls and confirm controls. The auditor may also decide to test controls in order to set control risk at LOW and reduce the amount of substantive testing necessary. If the auditor decides to test controls for one or more additional risks, the template will need to be modified to reflect this.*

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4. Evaluate the results and document a control risk assessment. Consider whether any internal control issues identified represent material weaknesses or significant deficiencies.

*Unless the auditor is testing the operating effectiveness of controls for one or more material systems, control risk must be set at MAXIMUM.*

*Regardless of the control risk assessment, the auditor must identify and report any significant deficiencies or material weaknesses discovered in either the design or operation of controls. Effective key controls provide reasonable assurance that material misstatements in relevant assertions will be prevented or detected and corrected timely. If there is not a key control designed to address a relevant assertion, is not actually placed in operation, or is not consistently or effectively applied, a significant deficiency likely exists. Depending on the magnitude and likelihood of potential effects and any compensating controls, the deficiency may represent a material weakness. See the Policy/Standards tab for more guidance on evaluating whether an identified issue represents a material weakness or significant deficiency.*

*In gaining an understanding of controls, consider the overall understanding of COSO elements as documented in the "Entity-wide COSO Evaluation" step as they relate to this particular system.*

*If exceptions are noted, auditors should follow up to understand why the exception occurred and the potential consequences. Additional testing or changes to the audit plan may be needed, based on auditor evaluation and follow up of exceptions.*

*All potential material weaknesses and significant deficiencies should be discussed with the AIC or AAM, since they must be reported as findings.*

Guidance/Criteria:

### **ADDITIONAL BACKGROUND**

Auditors should consider the following background information and resources when performing work on this area.

**SAO Audit Policy [2310](#) - Reporting Identified Audit Issues**

**SAO Audit Policy [6230](#) – Understanding Internal Control and Assessing Control Risk**

**[Financial Statement Audits](#) Planning Guide**

Record of Work Done:

The following is our understanding of internal controls over financial reporting. In gaining our understanding, we considered the five components of internal control based on the COSO framework (control environment, risk assessment, control activities, information and communication, and

## City of Clarkston

monitoring).

### **1. Understand & Confirm Controls over Financial Statement Preparation**

The City is a cash basis entity which uses Vision software for accounting processes.

The City moved from ASP to Vision in 2016 for their utility billings and cash receipting.

Rachel Frost, Finance Clerical Assistant, uses the Vision Software to reconcile the main bank account. Steve reviews and utilizes her reconciliation along with the reconciliation of the other minor(less activity) accounts to complete a cash and investment reconciliation to Vision (KC2).

Steve reviews coding for both revenue and expenditure transactions on a daily basis, prior to the bank deposit or right after.

Steve or Rachel performs journal entries and transfers for the City. They follow the approved budget to make the necessary interfund transfers during the year and attaches support whenever journal entries are made.

Using the voucher report, the finance committee reviews journal entries as they occur each month.

Also each month, Department Heads receive revenue and expenditure reports from the Vision system. They are able to review the interfund transfers to ensure payments are correctly coded and the amount is accurate. These reports are consistent and easy to understand.

Steve prepares the City's financial statements. Vision automatically prepares the Schedule 01, which is used to upload to LGCS, to ensure the proper format.

Steve is responsible for year end JV's and completes and/or reviews any inter-fund transfers. The cash in/cash out report and investment reports are used to ensure the financial statement data is correct (KC1).

He also compares the year-end actual expenditures to the budget for reasonableness.

He performs the year-end reconciliation with the bank statements to ensure all expenditure transactions were complete and revenue transactions occurred.

Steve uses the current BARS manual for Cash Basis Cities to complete the annual report.

To complete the notes, Steve uses support such as amortization schedules for LTD, investment statements, BARS manuals, and history report of transfers in/out to ensure the report data is correct.

Financial Statements for 2019-2020 were reviewed by Monika Lawrence, Mayor, to ensure it was complete and correct Steve provides the Council with a copy of the Annual Report (KC3).

#### Key Controls

**Key Control 1:** The Clerk/Treasurer reconciles financial statements to system reports, amortization schedules, investment statements, and the budget to ensure that the annual report is supported and ties to the G/L.

**Key Control 2:** The Clerk/Treasurer reconciles revenues and expenditure transactions monthly to bank and custodial statements to ensure transactions have occurred and are complete.

**Key Control 3:** Financial statements are reviewed by an independent third party to ensure the financial statements are properly prepared and are reasonable.

# City of Clarkston

## Key Control Confirmations:

**Key Control 1: The Clerk/Treasurer reconciles financial statements to system reports, amortization schedules, investment statements, and the budget to ensure that the annual report is supported and ties to the G/L.**

To confirm, we reviewed the 2019 and 2020 financial statement preparation folder, as well as Steve's Electronic files for 2019 and 2020, and noted year end reports for transfer history, cash in/out, revenue, expenditures, and budget to actual. Steve also showed us how he reviewed against the BARS Manual Template requirements. Steve also provided us the amortization schedules and investment statements he used to prepare the financial statements. **No issues noted, Key Control Confirmed.**

**Key Control 2: The Clerk/Treasurer reconciles revenues and expenditure transactions monthly to bank and custodial statements to ensure transactions have occurred and are complete.**

To confirm, we scanned s cash reconciliation files for 2019, and 2020. We noted each month had disbursements/receipts, and transfers in/out of the other accounts, without exception. Additionally, we noted that it appeared performed a reconciliation for each month within our audit period. **No issues noted, Key Control Confirmed.**

**Key Control 3: Financial statements are reviewed by an independent third party to ensure the financial statements are properly prepared and are reasonable.**

We corroborated with Monika Lawrence, Mayor, who noted that she reviewed the financial statement preparation for FY 2019 and FY2020 to ensure it was complete and reasonable. She noted that Steve walked her through the financial statements. We also obtained the FY2019 and FY2020 Annual report review files and noted they were signed reviewed by the Mayor. **No issues noted, Key Control Confirmed.**

## **2. Understand & Confirm Controls over Cash Flow Reconciliation**

The City receipts revenues, mainly OTC utility payments and taxes, at City Hall.

Using customer account numbers Rachel Frost, Finance Clerical Assistant, enters each utility payment into the Vision utility receipting sub-system.

At the end of the day, Marcie Bayless, Utility Clerk, reconciles the cash receipts to the cash receipts system report to ensure all payments received were recorded.

Marcie enters the JV for utility receipts into the Vision software.

The State taxes are electronically deposited into the City's LGIP account.

Steve and/or Rachel use the state remittance advice to credit the LGIP account directly by attaching a receipt to the bank account within Vision.

The finance committee reviews JV's when they authorize expenditures for payment. County taxes are remitted by a check and receipted into the system by Rachel.

Steve reviews Rachel's posting report to ensure receipts are properly coded on the expenditure side. Most of the City's transfers are between funds and their respective reserve funds.

The City currently does not have any interfund loans.

## City of Clarkston

Steve uses the approved budget to transfer funds for loan payments to ensure the codes and amounts are correct. Department heads review budget and revenue/expenditure reports to ensure any transfers are entered into the system correctly. Expenditures are initiated at the department level. Invoice that aren't directly mailed to the departments are received by Rachel and forwarded to the department heads for coding and approval. Steve receives payment vouchers and confirms that codes are correct. She then submits the vouchers to Marcie who processes all AP into the Vision system. Marcie prepares the vouchers with support attached and submits them to the finance committee for review. The City Council has authorized Steve to invest excess funds for the City. He follows RCW requirements to determine allowable investment instruments. The City invests excess funds in Certificates of Deposit and with the LGIP and Time Value Investments. They also receive interest on excess funds in their general checking account. Using the bank and custodial statements, Steve or Rachel receipts interest earned into Vision using an allocation spreadsheet to ensure all funds receive the correct amount of investment interest. At the end of each month, Steve reconciles the bank statement to the system GL reports to ensure all revenue and expenditure transactions that occurred were entered into the Vision system (attaches receipts). He uses the system's Outstanding Checks Report, both AP and Payroll Check Clearing Report, and the Check Register Report to help reconcile all transactions to the bank and custodial statements. If there is a discrepancy he investigates and resolves the issue. Although, on-site Steve performs some cash receipting, it is limited and unavoidable due to the size of the entity.

### Key Control

**Key Control 4:** Clerk/Treasurer reconciles GL reports to the bank statement each month to ensure accuracy of the general ledger.

### Key Control Confirmations:

**Key Control 4: Clerk/Treasurer reconciles GL reports to the bank statement each month to ensure accuracy of the general ledger.**

We reviewed the December 2019 & 2020 Twin River checking worksheet, which showed how the outstanding check report, check clearing report and the check register report supported the reconciliation calculations. Using the bank's ending balance and adjusting for the outstanding checks and deposits, the reconciled balance tied exactly to the check register balance. **Key Control Confirmed.**

## **3. Understand & Confirm Controls over Additional Risks Identified**

No additional risks identified.

## **4. Control Risk Assessment**

We determined that substantive procedures alone will be effective to reduce detection risk to an acceptably low level. Therefore, our final control

## City of Clarkston

risk assessment is **MAXIMUM** for all material balances.

In gaining and confirming our understanding of controls, we noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, based on the results of our substantive work, we identified a **control deficiency** over the preparation of the financial statements, notes and schedules. We estimate the likelihood of misstatements that are less than significant or material based on the existing controls.

### Issues

ISS.1 - The City had inadequate internal controls for ensuring compliance with federal procurement, suspension and debarment, and cash management requirements		
<i>Prepared By:</i>	HVB, 3/18/2022	<i>Issue</i> <b>SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS</b>  <b>City of Clarkston</b> <b>January 1, 2020 through December 31, 2020</b>  <b>2020-001 The City had inadequate internal controls for ensuring compliance with federal procurement, suspension and debarment, and cash management requirements</b>  <b>CFDA Number and Title:</b> 97.044 – Assistance
<i>Reviewed By:</i>	AMS, 3/18/2022	
<i>Type:</i>	Single Audit	
<i>Category:</i>	Grants (Federal)	
<i>Reporting Level(s):</i>	Finding	
<i>Impact</i>		
<i>Cost Savings:</i>		
<i>Questioned Costs:</i>	\$0.00	



## City of Clarkston

	<p><b>Federal Grantor Name:</b> Federal Emergency Management Agency (FEMA)</p> <p><b>Federal Award/Contract Number:</b> EMW-2018-FO-01923 EMW-2019-FO-01017 EMW-2020-FO-00798</p> <p><b>Pass-through Entity Name:</b> N/A</p> <p><b>Pass-through Award/Contract Number:</b> N/A</p> <p><b>Questioned Cost Amount:</b> \$0</p> <p><b><i>Background</i></b></p> <p>The purpose of the Assistance to Firefighters Grant (AFG) is to enhance the safety of the public and firefighters by providing direct financial assistance for critically needed resources that equip and train emergency personnel to recognized standards. During fiscal year 2020, the City spent \$369,623 in AFG program funds to pay for self-contained breathing apparatus (SCBA) devices, rapid intervention team (RIT) kits, and radio equipment.</p> <p>Federal regulations require recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.</p> <p><i>Procurement</i></p> <p>Federal regulations require award recipients to follow their own documented procurement procedures, which must reflect the most restrictive of applicable federal, state or local laws. The procedures must conform to federal procurement standards of 2 CFR 200.318-</p>
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## City of Clarkston

	<p>327 and ensure recipients follow the most restrictive thresholds and methods when using federal funds. Additionally, federal regulations require recipients to maintain written standards of conduct covering conflicts of interest and governing the actions of employees engaged in the selection, award, or administration of contracts procured with federal funds.</p> <p>When using federal funds to procure goods or services, governments must apply the more restrictive of federal requirements, state law or local policy by obtaining quotes or following a competitive bidding process, depending on the estimated cost of the purchase. City policy and state law are most restrictive and require a formal bid process for purchases of goods and services of \$15,000 or more.</p> <p>State and federal requirements allow local entities to bypass normal procurement laws through a process commonly referred to as "piggybacking." This process allows entities to purchase goods and services using contracts awarded by another government or group of governments via an interlocal agreement or cooperative. To comply with piggybacking law, the entity must enter into this interlocal agreement before it purchases services or goods from the other entity's bid contract. If the City uses such an agreement, federal regulations require it to confirm the awarding entity followed all procurement laws and regulations applicable to the City when selecting the contractor.</p> <p><i>Suspension and debarment</i></p> <p>Federal requirements prohibit grant recipients from contracting with parties suspended or debarred from doing business with the federal government. Whenever the City contracts for goods or services that it expects to equal or exceed \$25,000, paid all or in part with federal funds, it must verify the contractor is not suspended or debarred. The City can verify a contractor's status by obtaining written certification from the contractor, or it can</p>
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City of Clarkston

	<p>insert a clause into the contract stating the contractor is not suspended or debarred. Alternatively, the City can check the U.S. General Services Administration’s Excluded Parties List System (EPLS). The City must meet one of these requirements before awarding the contract or making purchases, and it must keep documentation demonstrating compliance with this federal requirement.</p> <p><i>Cash management</i></p> <p>The City’s grant agreements allowed it to receive award funds as cash advances or reimbursements for allowable program costs. For cash advances, federal regulations and the grant agreements require recipients to:</p> <ul style="list-style-type: none"><li>Maintain written procedures that minimize the time between the receipt of federal funds from the grantor and the disbursement of those funds to contractors providing goods and services. The grantor requires recipients to disburse funds within 30 days of receiving advances.</li><li>Track interest earned on cash advances and remit interest earnings exceeding \$500 back to the grantor.</li></ul> <p><i>Description of Condition</i></p> <p><i>Procurement</i></p> <p>The City’s established purchasing policy does not conform to federal procurement standards and does not include all methods for procurement, such as piggybacking. Additionally, the City’s own written conflict of interest policy does not conform to federal regulations because it does not include the following elements:</p>
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## City of Clarkston

	<p>No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a federal award if they have a real or apparent conflict of interest.</p> <p>The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.</p> <p>Although the City has controls over procurement, they were ineffective for ensuring compliance with all applicable requirements. The City did not perform competitive procurement procedures or establish an interlocal agreement to piggyback on a lead awarding agency's contract before purchasing \$210,902 in RIT kits and SCBA equipment of which the City charged \$207,359 to the federal program. Further, the City did not obtain a copy of the lead agency's cost or price analysis to confirm it performed the analysis before receiving bids or proposals, as federal regulations require.</p> <p>We consider this internal control deficiency to be a material weakness, which led to material noncompliance.</p> <p><i>Suspension and debarment</i></p> <p>The City did not have effective internal controls for verifying the suspension and debarment status of contractors for purchases exceeding \$25,000. The City did business with two contractors without maintaining documentation demonstrating it verified the contractors were not suspended or debarred.</p> <p>We consider this internal control deficiency to be a material weakness, which led to material noncompliance.</p>
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## City of Clarkston

	<p><i>Cash management</i></p> <p>The City did not have effective internal controls for ensuring it established written procedures over cash advances and disbursed federal funds to the contractor within 30 days, as the grantor requires. Additionally, the City did not have a process in place to track interest earned on cash advances for remittance back to the grantor when applicable.</p> <p>We consider this internal control deficiency to be a significant deficiency.</p> <p>These issues were not reported as findings in the prior audit.</p> <p><b><i>Cause of Condition</i></b></p> <p><i>Procurement</i></p> <p>City employees were aware the purchasing and conflict of interest policies needed updating to conform to federal procurement standards. However, the City did not prioritize updating the policies before procuring contracts with federal funds. City employees thought they followed piggybacking procedures, but they were unaware the City did not enter into an interlocal agreement with the lead agency that procured and awarded the contracts. Further, the City had copies of the lead agency's procurement documentation, but could not locate the cost or price analysis and did not perform its own analysis before making the purchase.</p> <p><i>Suspension and debarment</i></p> <p>The Clerk Treasurer said the Fire Chiefs, who are no longer with the City, provided verbal confirmation that they verified the contractors' suspension and debarment status. However, the City did not keep documentation demonstrating it verified contractors were not suspended or debarred from participating in federal</p>
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City of Clarkston

	<p>programs before entering into contracts.</p> <p><i>Cash management</i></p> <p>City employees were not aware the City was required to establish written procedures for cash advances. They also said they did not track interest earned from cash advances because the amount of time that elapses between receiving and disbursing federal funds is typically less than 30 days and they keep all federal funds received in a noninterest-bearing account. The City intended to spend the cash advance in a timely manner, but did not receive the contractor’s invoice to allow for payment until about four months after it delivered the goods. Further, the City did not document its efforts to obtain the contractor’s invoice or to notify the grantor of the delay in disbursing funds.</p> <p><i>Effect of Condition</i></p> <p><i>Procurement</i></p> <p>Without updated written procedures, the City is at greater risk of noncompliance with following the most restrictive procurement methods and standards of conduct requirements when procuring contractors paid all or in part with federal funds.</p> <p>Additionally, because the City did not enter into an interlocal agreement with the lead agency, state law would have required it to competitively procure the equipment purchases. Without effective internal controls that ensure it followed procurement or piggybacking procedures, the City cannot demonstrate it complied with applicable federal procurement requirements and received the best price when purchasing equipment. However, since the purchase was allowable under the federal program, we are not questioning costs.</p>
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City of Clarkston

	<p><i>Suspension and debarment</i></p> <p>The City paid two contractors \$369,264 in federal funds during fiscal year 2020, and it did not obtain written certifications, insert clauses into contracts, or check the EPLS to verify the contractors were not suspended or debarred before contracting.</p> <p>Without effective internal controls and maintaining documentation, the City cannot ensure the contractors it paid with federal funds are eligible to participate in federal programs. Any program funds the City used to pay contractors that have been suspended or debarred would be unallowable, and the federal grantor could potentially recover them. We subsequently verified the contractors were not suspended or debarred. Therefore, we are not questioning costs.</p> <p><i>Cash management</i></p> <p>We tested 12 invoices and found the City did not disburse payment for one invoice, totaling \$2,309, until 125 days after receipt of the cash advance. Because the City held the cash advance in a noninterest-bearing account, it was not required to remit any interest earnings to the grantor.</p> <p><b><i>Recommendation</i></b></p> <p>We recommend the City:</p> <ul style="list-style-type: none"><li>Update and maintain its written procurement and standards of conduct policies and procedures and ensure they conform to federal standards for all procurement transactions</li><li>Strengthen internal controls to ensure it procures goods and services in accordance with federal regulations</li></ul>
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City of Clarkston

	<p>and the City's own procurement policies and procedures</p> <p>Strengthen internal controls to maintain documentation demonstrating it verified contractors paid \$25,000 or more, all or in part with federal funds, are not suspended or debarred</p> <p>Establish and follow written policies and procedures for cash advances that ensure it minimizes the time between receiving and disbursing federal funds and tracks interest earned on cash advances</p> <p><b>City's Response</b></p> <p><i>The City is in the process of modifying the policy regarding federal procurement, suspension and debarment, and cash management to ensure compliance with usage of federal funds.</i></p> <p><i>The City plans to update the procurement policy and standards of conduct policy to ensure that federal standards are being maintained.</i></p> <p><i>The City will strengthen internal controls to ensure that procurement of goods and services will comply with federal regulations and the City's procurement policy.</i></p> <p><i>The City will ensure that suspension and debarment documentation will be retained for purchases of \$25,000 or more to any contractor paid all or in part with federal funds.</i></p> <p><i>The City will establish written cash management policy to minimize time between receiving and disbursing federal funds and to ensure compliance with the policy.</i></p>
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## City of Clarkston

### ***Auditor's Remarks***

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and professionalism during the audit. We will review the corrective action taken during our next regular audit.

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

Title 2 CFR Part 200, Uniform Guidance, section 318, General procurement standards, establishes requirements for written procedures and requirements for maintaining records sufficient to detail the history of procurement.

Title 2 CFR Part 200, Uniform Guidance, section 320, Methods of procurement to be followed, establishes requirements for procuring with Federal funds by non-federal entities.

Title 2 CFR Part 180, OMB *Guidelines on Agencies on Government Wide Department and Suspension (Nonprocurement)* establishes

## City of Clarkston

	<p>non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.</p> <p>Title 2 CFR Part 200, Uniform Guidance, section 305, Payment, establishes requirements for the method of reimbursement and disbursement of Federal funds by non-Federal entities.</p> <p>Department of Homeland Security (DHS) Notice of Funding Opportunity (NOFO), section VIII, Payments and Amendments, specifies recipients shall be paid in advance, provided they maintain, or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and its disbursement by the recipient (not to exceed 30 days).</p>
<b>NOTES</b>	

<b>ISS.3 - Financial statement preparation</b>		
<p><i>Prepared By:</i> HVB, 3/16/2022</p> <p><i>Reviewed By:</i> AMS, 3/18/2022</p> <p><i>Type:</i> Financial Statements</p> <p><i>Category:</i> Accounting/Financial Reporting</p> <p><i>Reporting Level(s):</i> Management Letter</p> <p><i>Impact</i></p>	<p><i>Issue</i></p> <p style="text-align: center;"><u>Management Letter</u> City of Clarkston January 1, 2019 through December 31, 2020</p> <p><b><u>Financial statement preparation</u></b></p> <p>City management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance financial reporting is reliable and complete. The City prepares its financial statements, notes and schedules in accordance with the cash basis accounting method prescribed in the <i>Budgeting, Accounting and Reporting System</i> (BARS) manual.</p>	

## City of Clarkston

<p><b>Cost Savings:</b></p> <p><b>Questioned Costs:</b>      \$0.00</p>	<p>The City's processes for preparing and reviewing the financial statements and notes were ineffective for detecting and correcting all reporting errors before submitting them for audit. Our audit found the following errors resulting from this deficiency. The City:</p> <ul style="list-style-type: none"> <li>Incorrectly classified ending cash and investment balances in the 2019 financial statements, understating reserved and overstating unreserved balances by \$1,943,362</li> <li>Underreported restricted and committed ending cash and investments by \$4,488,504 in the 2020 Notes to the Financial Statements and \$346,687 in the 2019 Notes to the Financial Statements</li> <li>Understated revenues and ending cash and investments in the 2019 financial statements by \$16,533 as compared to the City's general ledger</li> <li>Could not provide documentation to fully support beginning and ending cash and investments, revenues, and expenditures reported in the 2020 financial statements that exceed the auditor's expectations. This resulted in the following likely misstatements:</li> </ul> <table border="1" data-bbox="1161 813 1938 1019"> <thead> <tr> <th>Balance</th><th>Estimated Under/(Over)statement</th></tr> </thead> <tbody> <tr> <td>Beginning cash and investments</td><td>(\$3,6</td></tr> <tr> <td>Revenues</td><td>\$218,7</td></tr> <tr> <td>Expenditures</td><td>\$232,7</td></tr> <tr> <td>Ending cash and investments</td><td>(\$4</td></tr> </tbody> </table> <ul style="list-style-type: none"> <li>Overstated deposits and investments in the 2019 Notes to the Financial Statements by \$27,111, and understated the same disclosure in 2020 by \$321,269</li> </ul> <p>We found other, less significant errors in the Notes to the Financial Statements.</p> <p>We recommend City management strengthen internal controls over financial reporting. Specifically, management should:</p> <ul style="list-style-type: none"> <li>Ensure cash and investments, revenues, and expenditures reported in the financial statements agree to the reconciled general ledger and bank balances at year-end</li> </ul>	Balance	Estimated Under/(Over)statement	Beginning cash and investments	(\$3,6	Revenues	\$218,7	Expenditures	\$232,7	Ending cash and investments	(\$4
Balance	Estimated Under/(Over)statement										
Beginning cash and investments	(\$3,6										
Revenues	\$218,7										
Expenditures	\$232,7										
Ending cash and investments	(\$4										

## City of Clarkston

	Properly classify and disclose ending cash and investments in the financial statements and notes Perform an effective review of the financial statements and notes to identify and correct errors before submitting them for audit
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### NOTES

#### ISS.4 - Electronic fund transfers - disbursements

<i>Prepared By:</i> HVB, 2/19/2022 <i>Reviewed By:</i> AMS, 2/19/2022 <i>Type:</i> Accountability <i>Category:</i> IT Controls - Non-Confidential <i>Reporting Level(s):</i> Exit Item  <i>Impact</i> <i>Cost Savings:</i> <i>Questioned Costs:</i> \$0.00	<i>Issue</i> We recommend the City establish and follow an electronic funds transfers policy that includes the required elements prescribed in the BARS Manual (3.8.11.30) and state law (RCW 39.58.750).
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### NOTES

#### ISS.5 - Limited Distribution - User access

<i>Prepared By:</i> HVB, 2/25/2022	<i>Issue</i>
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## City of Clarkston

<p><i>Reviewed By:</i> AMS, 3/4/2022</p> <p><i>Type:</i> Accountability</p> <p><i>Category:</i> IT Controls - Confidential</p> <p><i>Reporting Level(s):</i> Exit Item</p> <p><i>Impact</i></p> <p><i>Cost Savings:</i></p> <p><i>Questioned Costs:</i> \$0.00</p>	<p><b>This record contains information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.</b></p> <p>Based on the limited audit work performed, we identified the following deficiencies, the City does not:</p> <ul style="list-style-type: none"> <li>Have any board approved policies and/or procedures regarding IT controls, including User Access and Authentication.</li> <li>Have procedures in place to periodically review/monitor high-level user activities.</li> </ul> <p><u>We recommend</u> the City:</p> <ul style="list-style-type: none"> <li>Establish policies or procedures related to user authentication and user access.</li> <li>Periodically review/monitor administrative level user activities.</li> </ul>
<b>NOTES</b>	

ISS.6 - Limited Distribution - Vendor access	
<p><i>Prepared By:</i> HVB, 2/25/2022</p> <p><i>Reviewed By:</i> AMS, 3/4/2022</p> <p><i>Type:</i> Accountability</p> <p><i>Category:</i> IT Controls - Confidential</p> <p><i>Reporting Level(s):</i> Exit Item</p>	<p><b><i>Issue</i></b></p> <p><b>This record contains information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.</b></p> <p>The City uses its software vendor for its IT Service needs. The City does not retain control of, nor monitor, vendor access.</p> <p><u>We recommend</u> the City:</p>

City of Clarkston

<i>Impact</i> <i>Cost Savings:</i> <i>Questioned Costs:</i> \$0.00	Establish expectations over vendor access, and clearly define those expectations in the contract terms or other communication with the vendor. Monitor and oversee vendor activities, such as using audit trails or other methods of reviewing administrative level activities.
NOTES	