

Black Caucus Web Chat
“Internal Controls: The New Auditing Environment”
April 2, 2008

Participants

Lisa Marie Harris
Tiffany Lovett
Patti Phillips
Robert Scott
Roger Short
Barrie Tabin Berger
Susan Gaffney

Roger For the record, this is Roger Short participating. Thanks.

Tiffany Hello, Roger. This is Tiffany Lovett from Cabrera Capital Markets. I'm not sure
L. if you remember me.

Roger Tiffany, hello. I do remember you. Good to have you join us.

Lisa M. Welcome all, we will begin shortly.

Angie Hello
N.

Overview of Statements on Auditing Standards Nos. 103-112

SAS No. 103 "Auditing Documentation:" Changes the date of the independent auditor's report. Any delays in completing the audit could result in higher audit fees. Entities should take positive steps to ensure the timely completion of the audit.

SAS Nos. 104-111 "Risk-Assessment Suite:" Requires auditors to implement and document an audit approach based on the risk of material misstatement. Additional audit work needed to comply will likely increase audit costs 10 to 15 percent. Entities should expect higher audit fees, but question proposed increases significantly in excess of the 10-15 percent range.

SAS No. 112 "Reporting Deficiencies:" Identifies a number of commonly encountered situations as being deficiencies that must be reported. Will likely increase the number of deficiencies reported, especially in the case of many smaller governments. Entities should ensure that the government's framework of internal control is comprehensive and well documented.

"How New Standards for Auditors Will Likely Affect the Government They Audit," Government Finance Review, June 2007.

Opening Statement from Black Caucus Chair, Lisa Marie Harris

Good Morning/Afternoon, as the Chair of the GFOA Black Caucus, I would like to welcome you to our on-going Web chat series. Today, we will be discussing: "Internal Controls: The New Auditing Environment." The purpose of this web chat will be to increase the awareness of the new auditing environment that we face today and to share information so that we are more prepared to meet these new requirements. We are excited to have this opportunity and I thank you all for your participation.

The table above is a summary of the Statements on Auditing Standards Nos. 103-112. Please review and offer your thoughts and experiences on these standards and recommendations you might offer to assist in meeting these standards, such as resources you have found beneficial.

Lisa M. Welcome again, everyone, please take a moment to view the paste above, which summarizes the purpose of today's chat as well as some initial thoughts from the County of San Diego Treasury. Please jump in!

Lisa M. Roger, what are your thoughts?

Our auditors approached us late last year before commencing the audit and indicated that they felt a fee adjustment was necessary because of the new standards. Part of their documentation was the article Stephen Gauthier authored that indicated fee increases of 10-15% were justifiable based on the new standards. As we are a long-time client, they proposed and we accepted an increase on the lower end of that range.

Lisa M. Where are you from Robert S.?

Have your auditors discussed these standards to help your entity prepare?

Carmen, do you have any thoughts?

Robert S. Robert Scott from Brookfield, Wisconsin

Lisa M. Have you offered training to your governing body or staff? GFOA has offered a great webinar on internal control basics.

Lisa M. Angie do you have any thoughts?

Robert S. To date we haven't offered any training to elected officials or staff. I did provide a summary of the new standards and the impact, along with a letter from the auditors, to the city council.

Roger My city (Detroit) just renewed our contract with our auditors. They had an early adoption policy, and the increased fee was a lot more than 15%. For us it is important for the auditors to clearly lay out the changes in their scope early in the conversation. No surprises like we had here in Detroit. Finally, we had no time for training.

Lisa M. Robert S. what are you doing to prepare for the new standards? Anything other than the letter to the Council?

Angie N. My auditor's mentioned a couple things regarding changes in future years; but the lawyer is the one who is making sure that things are well documented on my

end regarding internal controls.

Lisa M. Are there any thoughts about how to control auditing costs?

Roger Right, those changes in the SAS are significant from an audit scope. Council will probably want more than just a letter.

Lisa M. Angie N. what lawyer, your internal counsel? What is their role?

Carmen and Tiffany, your thoughts?

Robert S. For preparation, we paid closer attention to cleaning up things that might have been audit adjustments in prior years (like iffy receivables) because I didn't want to get management letter comments under SAS 112 for reporting deficiencies because of a couple of audit adjustments. We typically have very few, if any, auditor proposed adjustments, but I didn't want negative comments.

Angie N. I am the fiscal officer (contracted) for several schools; so it is the schools' lawyer that I am referring to.

Lisa M. Robert S. what about SAS 104-111 and addressing internal controls?

As a result of these standards, there may be many more findings for us all. Have

Lisa M. you prepared your governing body for this possibility? If so, what are you doing?

Robert S. Lisa Marie, good question - our auditors did assist with providing templates of how to document our controls and procedures so they could design their audit around testing those procedures rather than just documenting the procedures themselves and saying "it's the same as in last year's file." My observation was that they didn't really seem to do that much more audit work in the field but I'm not that close to the day to day audit work. They did involve more IT audit staff than in the past.

Lisa M. Can you share your template Robert S.?

Roger Lisa, you are right. The City has a lot more findings. Also, I hope Robert S. can share his template.

Tiffany L. Hi, Lisa Marie. Unlike most of today's participant's, I'm on the municipal bond underwriting side so I don't have direct experience with today's topic. Don't know how much I'll be able to contribute. But I'm definitely learning.

I'm here really to keep abreast of some of the things municipal issuers, particularly the finance staff, have to deal with.

Lisa M. Can anyone share when and how they plan to document their internal controls?

Patti P. welcome to the chat, feel free to jump in and give us your thoughts.

Robert S. I'd be glad to share what we used, but remember we are a small city and the templates likely will not be as useful for larger governments like you or Roger. Are these something that can be posted on the GFOA website or should I send them to Barrie to distribute?

Lisa M. Please send to Barrie for distribution. I think your template will be helpful to us all.

Patti P. One item that we have initiated is having each director of a department sign a management representation letter. This requires them to acknowledge their

responsibility for internal control within their area of responsibility, an important first step in establishing internal control. I also did a very short power point on what is internal control.

Roger Robert S., the auditors spent a great deal of time in the IT area. Half of the findings came from that area. Now we have an IT person working with us on our CAFR team. Also, Patti P where are you from? City? School? Thanks.

Lisa M. Patti P. that sounds great! What was the management's response in signing the letter? Please forward your power point to Barrie if you don't mind sharing.

Roger, did your auditor determine that IT was your high risk area upon completion of a risk assessment? Also, have any of you done an internal risk assessment to prepare for these standards?

Patti P. I am the Finance Director from the City of Virginia Beach. I will get the letter to Barrie. We have also prepared a lot of "Administrative Directives" (some call them internal procedures or policies) to document responsibilities for payroll, payables, and purchasing, as well as a few other areas. Again, a first step in control is to tell everyone what they are supposed to do.

Lisa M. Patti P., Have you made a distinction between documenting policies and procedures and internal controls? We have learned at the County of San Diego that it is an important distinction.

Roger Lisa, yes, and as a result a lot more audit work was required. Patti P, maybe you can send Barrie a sample of the Administrative Directives?

Lisa M. Has anyone received direction regarding how to document the testing of internal controls? Our internal audit department has been tasked with testing the internal controls as identified by the department. Are you submitting a memo to file for example?

Patti P. I think we have done an IT assessment (or our auditors have, but some time ago). Not sure I can find it though. We do have a fairly big IT operation. I think you can hire it out to do it ahead of the auditors...since now they may be required to write it up in a management letter.

Lisa M. Patti P., you are right, if the auditors participate in anyway, it's my understanding there will be a finding.

Robert S. I have to leave for a meeting but have one additional thought to share that doesn't relate directly to the discussion so far - at a state conference we were discussing the new standards and a representative from another audit firm indicated that they weren't adjusting fees because "they have always done their audits this way." I am somewhat skeptical of that, given the changes, and would hope that certain firms don't try to gain a competitive price advantage by taking shortcuts and doing lower quality work. Good chat, and thanks for the opportunity to participate.

Patti P. This chat is a nice idea, and it does make us aware of all the things yet to do. Maybe this should be a project with more stuff on the web.

Lisa M. Robert S. thanks for your participation and we look forward to receiving your template!

Roger Robert S., ditto Lisa's comments. Patti thanks for your comments.

Lisa, we are probably like a lot of others, we have policies, and we have procedures (not enough but a good start) and providing the distinction from an internal control is a hard thing. Training is key and we do plan to do more, and at all levels. I am learning that many, including some of my staff, do not know their responsibility for controls.

I would highly recommend GFOA resources such as their training on internal controls, recommended practices, and the Stephen Gauthier articles on the new standards. We also ordered the COSO framework from the AICPA website.

I would also recommend that you engage your auditor and negotiate how they plan to apply the standards to your entity.

Is anyone contracting with a third party auditor to assist in the preparation or review of the CAFR?

The final transcript will be made available. Please email me or GFOA with any thoughts regarding this chat or future chats the Black Caucus can offer.

Please note the schedule for upcoming Black Caucus activities.

Thanks great chat.

The annual meeting, Sunday, June 15, 2008 4-5pm

The Evening event, Sunday, June 15 6:30pm -9:30pm at the Old Dillard Museum at the annual conference in Ft. Lauderdale!!

I look forward to seeing you all there! Again, thanks to everyone who participated today. I have learned a lot and I hope we do share information on how we can best prepare for these standards.