



Vermont League
of Cities & Towns

Locally Elected Auditors Training



What is an Audit?

- Independent review
- Provides assurance to users of financial information that information is reliable and relevant
- Focus on analytical and logical skills necessary to evaluate systems and financial information
- Not a prescribed set of tasks but a framework to be applied to any system design

Steps in the Audit Process

- Preparation Stage
 - Assign and Schedule Tasks
 - Preliminary Review
- Understanding the System
 - Interviews and Documentation
- Testing and Reviewing the System
- Preparing the Report



Preparation Stage

Plan and Review



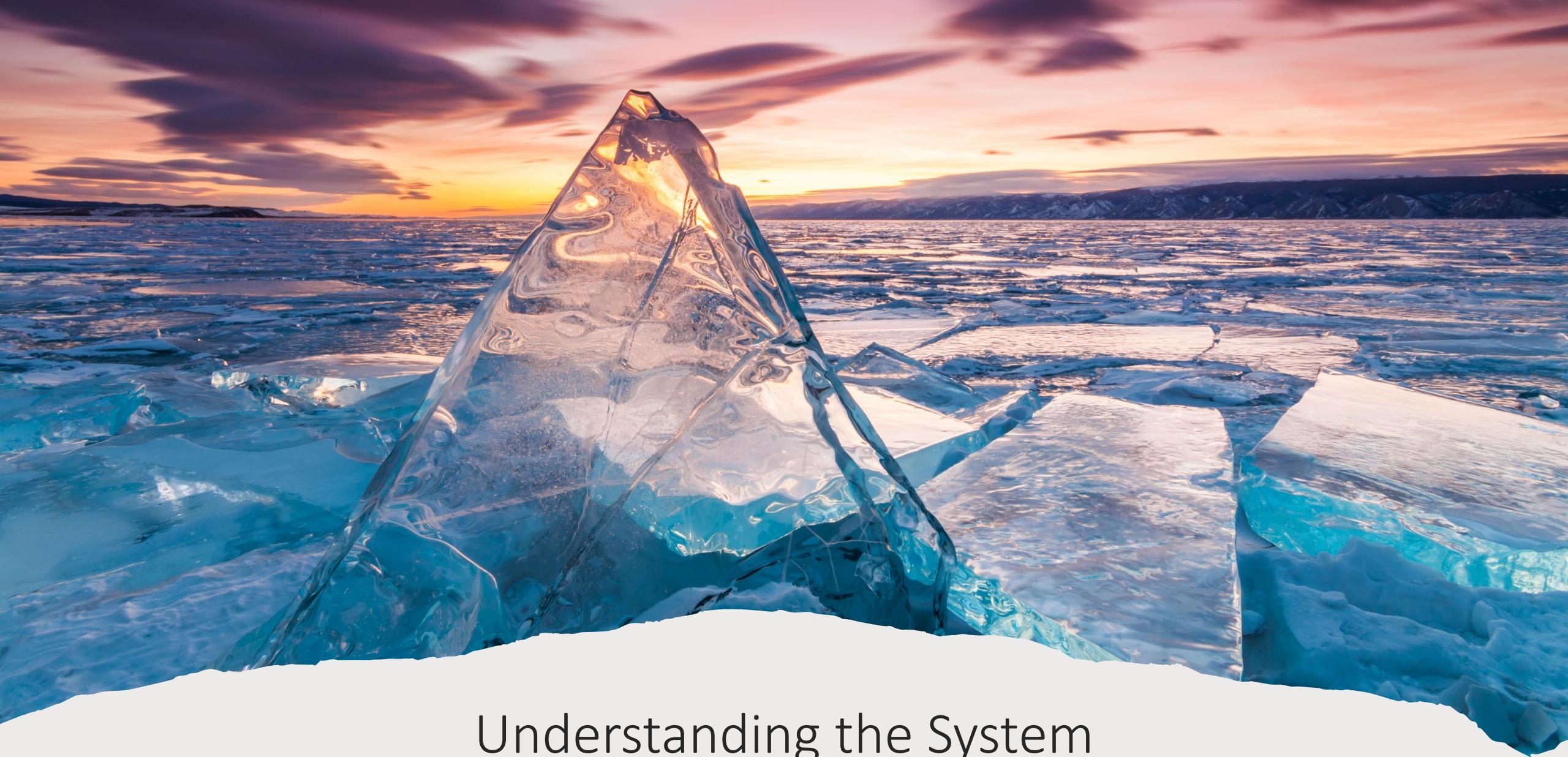
Assign and Schedule Tasks

- Determine statutory deadlines and plan backward
- Look through last years checklists, workpapers, and reports
- Assign specific action items to each member with deadlines
- Schedule future meetings to check in



Preliminary Review

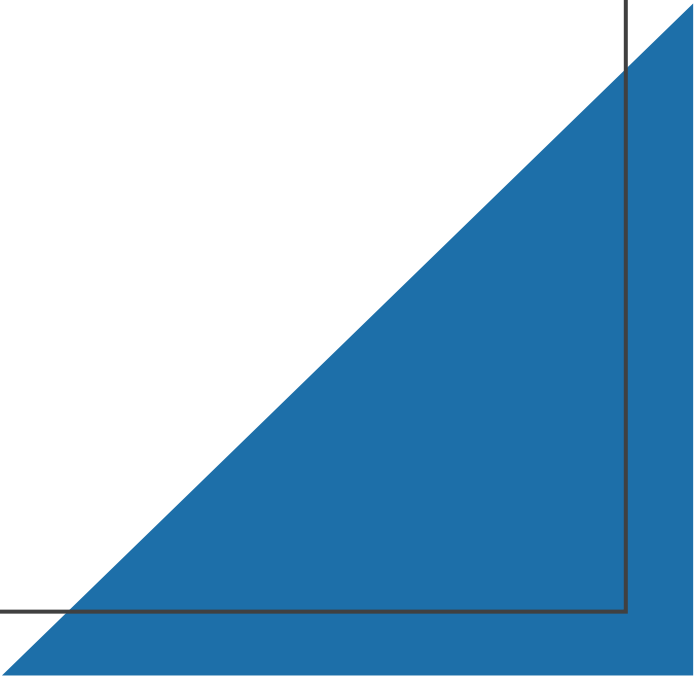
- Review financial reports included in prior year town report
- Review current year reports prepared by town officers
- Are there significant changes in operations since the last audit?
- What are external factors that may impact the financial results?
- Review minutes from annual town meeting, any special town meeting, and selectboard meetings
- Review financial policies adopted or updated by the selectboard and other town officials



Understanding the System

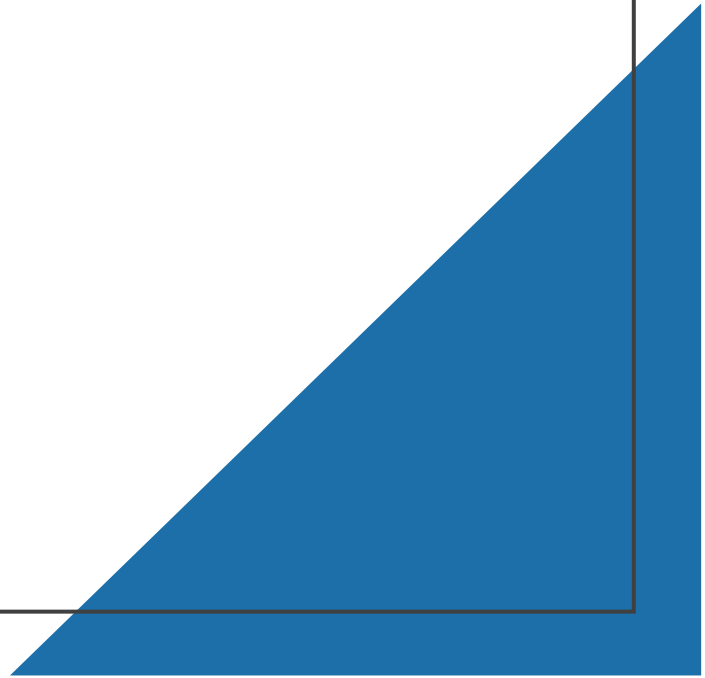
Documenting Procedures and Reviewing Internal Control

Document Procedures

- Which officer(s) and employee(s) perform financial operations?
 - Who is responsible for billing and collection of taxes and other revenues?
 - Who is responsible for authorizing disbursements?
 - What reviews and reconciliations are being performed?
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Review Internal Control

- Analyze procedures to assess possible risks
- Inquire about any compensating controls
- Complete internal control checklists
- Determine how results of review may impact audit procedures
- Prepare recommendations for improvements



Internal Control Resources

VLCT Internal Financial Controls Checklist:

<https://www.vlct.org/resource/internal-financial-controls-checklist-municipalities>

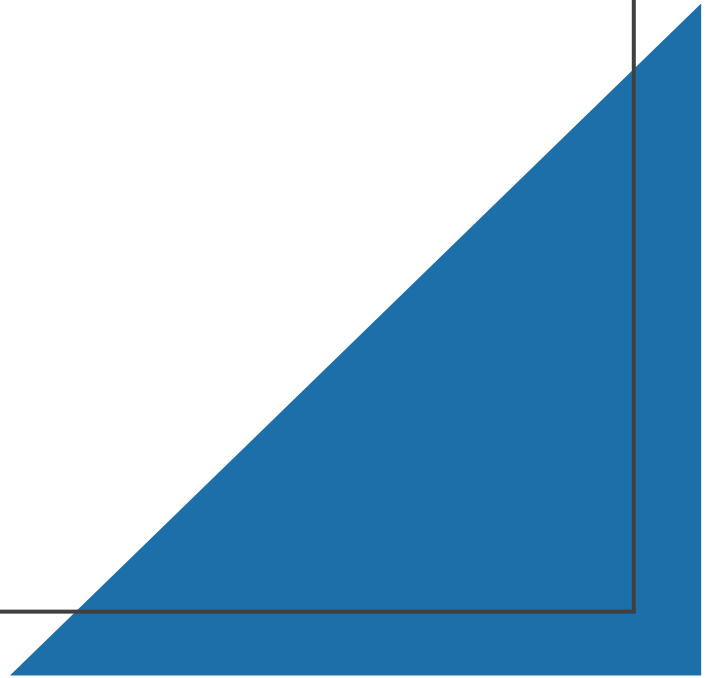
Vermont State Auditor

[Local Government | Office of the Vermont State Auditor](#)

[Internal Financial Controls Checklist for Municipalities](#)

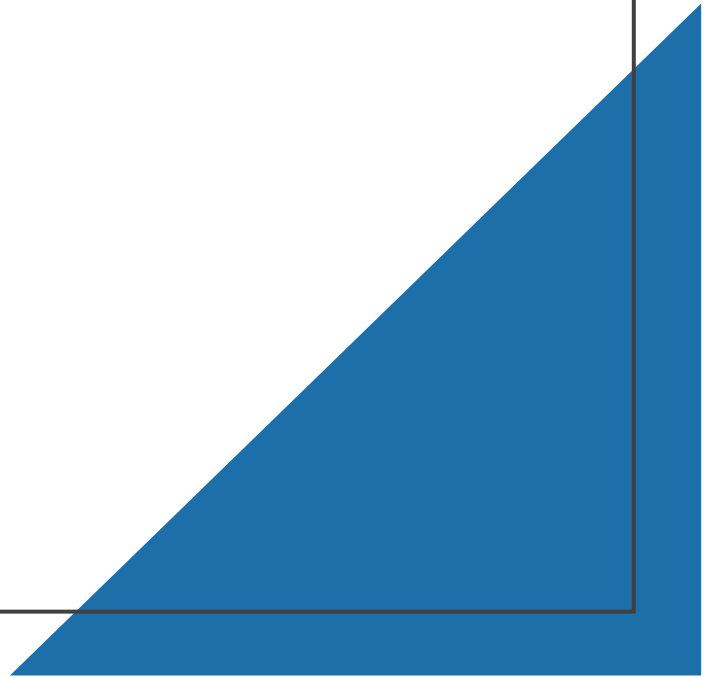
[Internal Controls Checklist - Long Version](#)

[Segregation of Duties Examples](#)



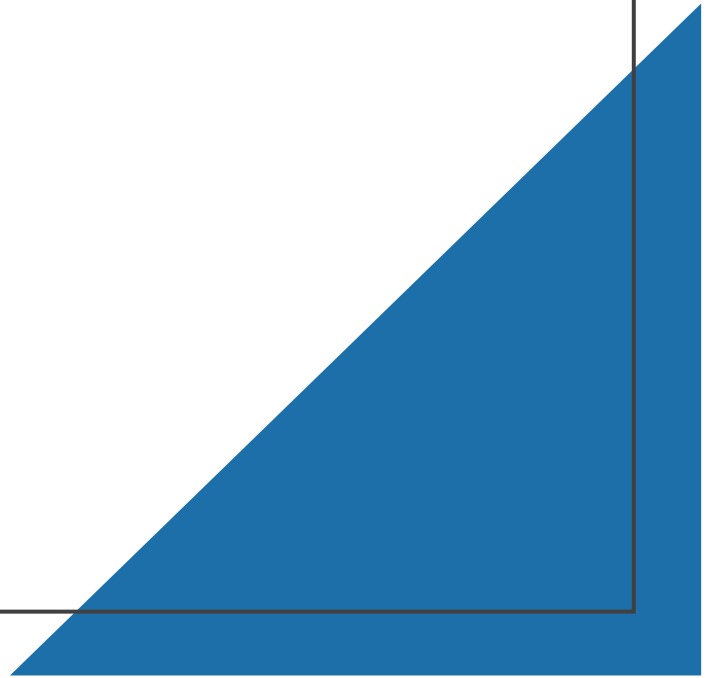
Understanding Operations

- Billing and collection of taxes and other receivables
- General cash receipts
- Purchasing and payment of accounts payable
- Payment of payroll and maintenance of leave time records
- Maintenance of general ledger
- Reconciliations
- Financial reporting

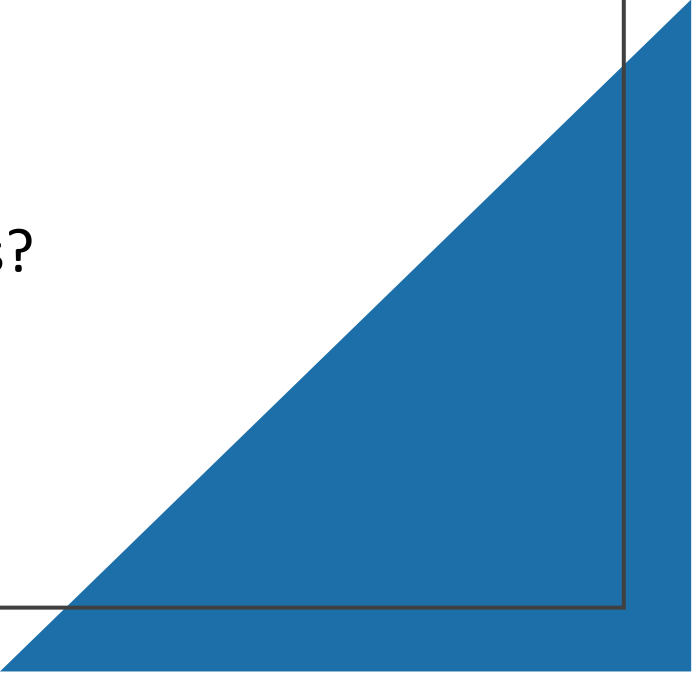


Taxes and Other Receivables

- Changes in grand list valuation
- Preparation of tax bills
- Adjustments to grand list and changes in taxes
- Reconciliation of current and delinquent taxes
- Other receivables – billing and collection

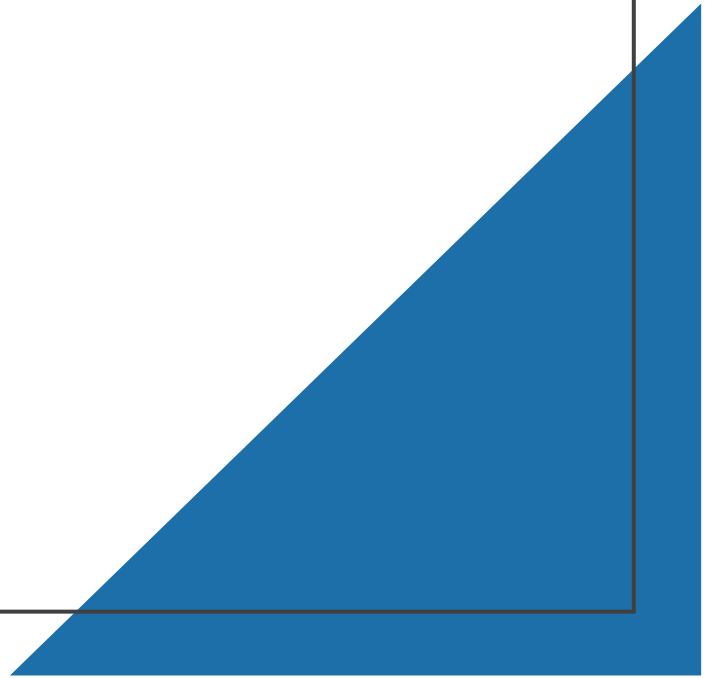


General Cash Receipts

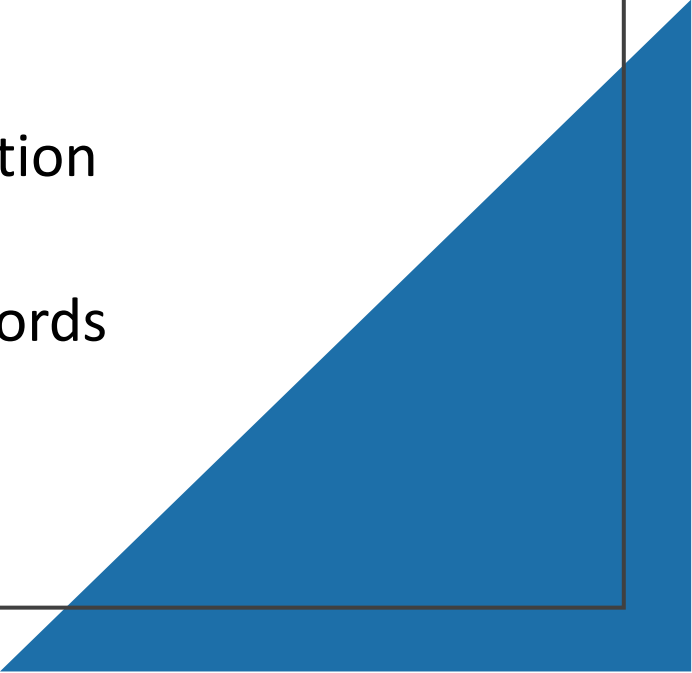
- Who is authorized to collect money?
 - What documentation is maintained for receipts?
 - Who reconciles the information?
 - How are transactions recorded in the accounting records?
 - Internal control policies regarding cash
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Purchasing and Accounts Payable

- Is there a purchasing policy?
- Who can authorize purchases and approve payment?
- What procedures are in place to review authorization, receiving and approval?
- Internal control policies

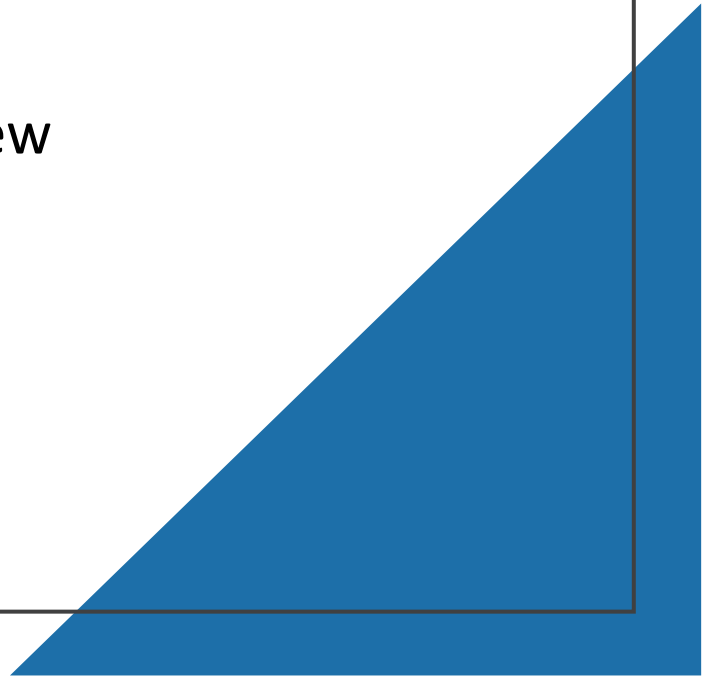


Payroll and Leave Time Records

- Approval of time sheets
 - Preparation and approval of payroll
 - Payment of payroll taxes and other benefits and preparation of related returns/reports
 - Maintenance of leave time records and other payroll records
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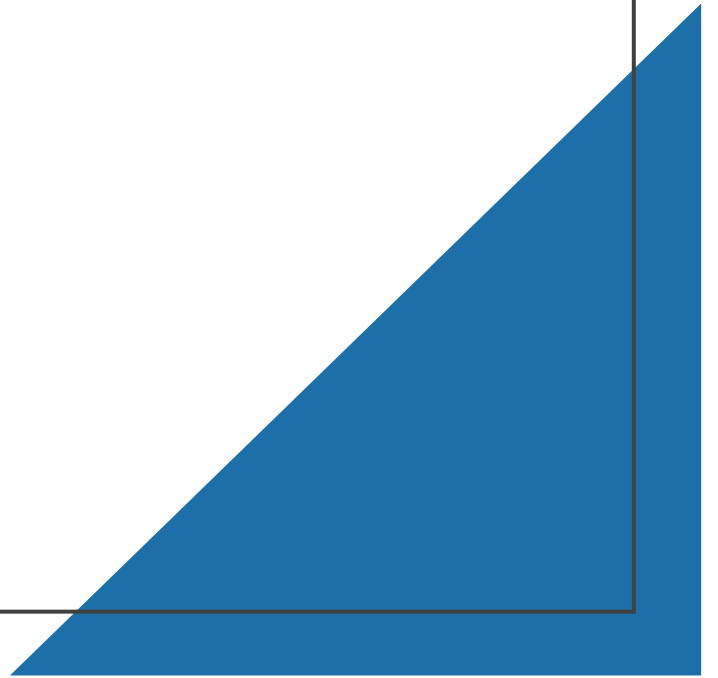
Maintenance of General Ledger

- Posting transactions to the general ledger – authorization, approval, review
- Adjusting journal entries – authorization, approval, review
- Report preparation



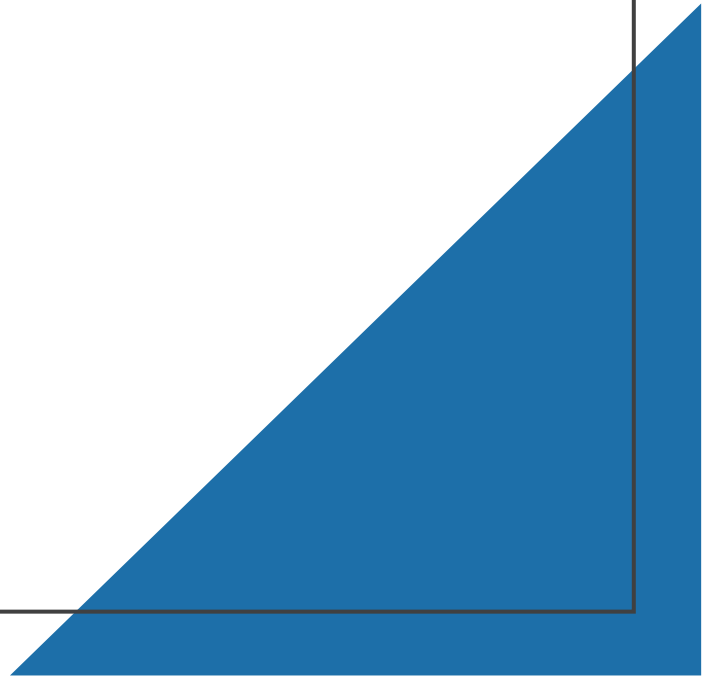
Reconciliations

- Cash and investment accounts
- Taxes receivable
- Other receivables
- Accounts payable
- Overpayments payable
- Payroll liabilities
- Revenue accounts



Financial Reporting

- Internal reports
 - Transaction reports
 - Reconciliations
- External reports
 - Financial position
 - Results of operations
 - Details of account balances





Testing and Reviewing the System

Practical suggestions for a methodical audit of account balances

Start with the Trial Balance

- List of all accounts and their balances as of a date
- Start with this report and work your way from the top to the bottom
- Which accounts will you test? Create a checklist
- For each account determine:
 - What is this account used for?
 - What does the balance represent?
 - What are the processes in place that impact this account?
 - How could it be confirmed or reviewed for reasonableness and accuracy?

Example: Petty Cash

- Petty Cash is a common asset account
- A small amount of cash on hand for incidental purchases
- Usually has a stable, round number balance
- Auditing Petty Cash:
 - Gain an understanding of the petty cash process
 - Consider how you can test the balance given what you learn about the process

Example: Petty Cash

Understanding the Petty Cash Process:

- Petty Cash is a small amount of cash on hand for incidental purchases
- At any given time the sum of the cash on hand plus any receipts for purchases made with petty cash should equal the balance in the account
- From time to time the cash on hand is replenished by the Treasurer submitting the receipts to accounts payable to be expensed to the appropriate codes

Example: Petty Cash

Testing the Petty Cash Process:

- Verify the sum of cash on hand plus any receipts that have not yet been reimbursed equals the balance on the trial balance
- Review a sample requisition to ensure the supporting documentation is present and the appropriate approvals happened

**ANYTOWN, VERMONT
PETTY CASH RECONCILIATION
JUNE 30, 20XX**

Petty Cash Summary

Administration	\$ 25.00	
Town Clerk	150.00	
Public works	50.00	***
Public safety	75.00	
Recreation	<u>50.00</u>	

Total Petty Cash \$ 350.00

Petty Cash Test - Public Works

Cash on hand	<u>\$ 22.30</u>	
Receipts		
Bond Auto Parts - oil filter	14.95	
Anytown Post Office - postage for return	<u>12.75</u>	

Total receipts 27.70

Total Petty Cash \$ 50.00 ***

Asset Accounts

- Checking and Savings Accounts
- Petty Cash
- Investments
- Taxes Receivable
- Grants Receivable
- Other Accounts Receivable
- Capital Assets

Liability and Equity Accounts

- Accounts Payable
- Wages Payable
- Debt Balances
- Fund Balance

Revenue and Expenditure Accounts

- Tax Revenues
- General Revenues
- Payroll expenditures
- General expenditures
- Transfers between funds

Audit Procedures – Cash Reconciliation

- Prepare proof of cash
 - End of year and randomly selected month(s)
- Trace deposits and expenditures back to cash records
- Review other reconciling items
- Review transfers between accounts
- Verify year end balances

**ANYTOWN, VERMONT
PROOF OF CASH
JUNE 30, 20XX**

	<u>Balance Beginning</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance End</u>
Balance per Bank				
Checking account	\$ 803,442.43	\$ 469,451.12	\$ (302,477.88)	\$ 970,415.67
Deposits in transit				
Beginning of month	4,578.25	(4,578.25)		-
End of month		6,712.68		6,712.68
Outstanding checks				
Beginning of month	(67,841.22)		67,841.22	-
End of month			(83,559.80)	(83,559.80)
Other reconciling items				
Deposit corrections	0.10	(0.10)		-
NSF checks in transit	25.00	(45.00)	40.00	20.00
	<u>25.00</u>	<u>(45.00)</u>	<u>40.00</u>	<u>20.00</u>
Balance per Books	<u>\$ 740,204.56</u>	<u>\$ 471,540.45</u>	<u>\$ (318,156.46)</u>	<u>\$ 893,588.55</u>

**ANYTOWN, VERMONT
PROOF OF CASH
JUNE 30, 20XX**

	<u>Balance Beginning</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance End</u>
Book Activity				
Cash Receipts				
Property taxes		\$ 67,458.12		
Utility receipts		16,877.21		
Other cash receipts		387,126.87		
Cash Disbursements				
Accounts payable			(215,674.33)	
Payroll			(102,457.58)	
Other Activity				
Interest earnings		78.25		
Bank fees			(24.55)	
Total Book Activity		<u>\$ 471,540.45</u>	<u>\$ (318,156.46)</u>	
Difference		<u>\$ -</u>	<u>\$ -</u>	

Audit Procedures – Cash Activity

- Receipts journal
 - Trace account totals to general ledger and trial balance
 - Trace amounts to subsidiary ledgers
 - Examine supporting documentation

Audit Procedures – Cash Activity

- Disbursements journal
 - Trace account totals to general ledger and trial balance
 - Trace amounts to invoices
 - Trace amounts to signed orders
 - View cancelled checks

Audit Procedures – Investments



Review transaction
reports



Trace activity to
general ledger



Verify year end
balances

Audit Procedures – Taxes Receivable

- Prepare tax reconciliation
- Recalculate penalty and interest amounts
- Compare collections to cash receipts journal
- Verify abatements
- Co-ordinate with tax revenue test

**ANYTOWN, VERMONT
PROPERTY TAXES RECEIVABLE
JUNE 30, 20xx**

	<u>Taxes</u>	<u>Interest</u>	<u>Total</u>
Balance, beginning of month	\$ 487,125.66	\$ 29,874.24	\$ 516,999.90
Current month activity			
Tax adjustments	(1,478.25)		(1,478.25)
Interest added		4,258.11	4,258.11
Interest abated		(89.25)	(89.25)
Collections	<u>(287,144.25)</u>	<u>(14,877.11)</u>	<u>(302,021.36)</u>
 Balance, end of month	 <u>\$ 198,503.16</u>	 <u>\$ 19,165.99</u>	 <u>\$ 217,669.15</u>

**ANYTOWN, VERMONT
DELINQUENT TAX RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 20xx**

	<u>Taxes</u>	<u>Interest</u>	<u>Penalty</u>	<u>Fees</u>	<u>Total</u>
Balance, July 1	\$ 75,877.25	\$ 7,255.77	\$ 4,874.22	\$ 100.00	\$ 88,107.24
Activity					
Delinquent taxes from collector	198,503.16	19,165.99			217,669.15
Delinquent penalties & interest added		1,985.03	15,880.25		17,865.28
Interest and fees added		11,256.55		750.00	12,006.55
Abatements	(4,788.22)	(47.88)	(383.06)		(5,219.16)
Collections	<u>(196,692.70)</u>	<u>(31,175.67)</u>	<u>(15,708.25)</u>	<u>(800.00)</u>	<u>(244,376.62)</u>
Balance, June 30	<u><u>\$ 72,899.49</u></u>	<u><u>\$ 8,439.79</u></u>	<u><u>\$ 4,663.16</u></u>	<u><u>\$ 50.00</u></u>	<u><u>\$ 86,052.44</u></u>

Audit Procedures – Other Receivables

Review schedule of other receivables and compare to supporting detail

Review subsequent receipts for omitted items

Audit Procedures – Capital Assets

- Complete or review inventory of capital assets
- Review documentation for acquisitions and disposals
- Review disbursements for unrecorded assets
- Review insurance coverages



Audit Procedures – Payables



Accounts payable

Review listing and compare to invoices

Search subsequent expenditures for unrecorded payables

Search for retainage amounts on long-term contracts



Payroll liabilities

Trace liabilities to tax returns

Review subsequent expenditures for payment

Co-ordinate with payroll review



Other long term debt

Review debt activity schedule

Trace proceeds of new debt issued to receipts journal

Review documentation of principal and interest payments

Audit Procedures – Tax Revenues

- Reconciliation of grand list
 - Authorization of changes to grand list
 - Review of permits and land transfer records
- Changes to grand list and taxes due
 - Lister changes
 - BCA changes
 - State changes

Audit Procedures – Tax Revenues

- Recalculate tax amounts billed
- Trace values to Form 411
- Trace tax rate to select board minutes
- Verify adjustments
- Verify approval for abatements
- Trace payments to cash receipts journal
- Trace delinquent amount to delinquent taxes receivable

**ANYTOWN, VERMONT
TAX RECONCILIATION
JUNE 30, 20XX**

	<u>Municipal</u>	<u>Homestead Education</u>	<u>Non-resident Education</u>	<u>Local Agreement</u>	<u>Total</u>
Taxes to account for					
Grand List	\$ 8,757,279.55	\$ 4,373,507.57	\$ 3,584,268.38	\$ 8,757,279.55	
Tax rate	<u>0.3281</u>	<u>1.1361</u>	<u>1.3125</u>	<u>0.0049</u>	
Taxes as calculated	2,873,263.42	4,968,741.95	4,704,352.25	42,910.67	12,589,268.29
Rounding Adjustment	<u>(47.59)</u>	<u>0.28</u>	<u>1.50</u>	<u>0.30</u>	<u>(45.51)</u>
Taxes billed	<u>\$ 2,873,215.83</u>	<u>\$ 4,968,742.23</u>	<u>\$ 4,704,353.75</u>	<u>\$ 42,910.97</u>	<u>\$ 12,589,222.78</u>
Taxes accounted for					
Taxes collected	\$ 12,258,144.25				
Tax adjustments					
Grand list corrections	4,785.22				
Abatements	(2,577.22)				
Small balance adjustments	(24.55)				
Overpayment to prepaid	4,788.25				
To delinquent collector	<u>324,106.83</u>				
Total accounted for	<u>\$ 12,589,222.78</u>				
Variance	<u>\$ (0.00)</u>				

Audit Procedures – General Revenues

- Town Clerk fees – recalculate revenues based on activities
- State payment report – trace payment amounts to cash receipts journal (town payment reports – [Town Payment Reports and Data | Department of Finance and Management \(vermont.gov\)](#))
- Compare actual revenues to budgeted and prior year amounts for variances
- Perform reasonableness analysis

Audit Procedures – Payroll Disbursements

- Prepare payroll summary by quarter
- Trace amounts to tax returns
- Reconcile totals to general ledger
- Trace random payroll
 - Verify hours and rate of pay
 - Recalculate amounts
 - Trace amounts to warrant and general ledger

**ANYTOWN, VERMONT
PAYROLL RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 20XX**

	<u>September</u>	<u>December</u>	<u>March</u>	<u>June</u>	<u>Total</u>
FIT wages					
Gross payroll	\$ 250,203.34	\$ 198,043.63	\$ 157,466.38	\$ 139,920.53	\$ 745,633.88
Adjustments to taxable wages					
Flexible spending account	(1,710.21)	(1,541.22)	(1,455.87)	(1,784.22)	(6,491.52)
Retirement contributions	<u>(13,920.42)</u>	<u>(11,352.80)</u>	<u>(12,386.48)</u>	<u>(11,434.87)</u>	<u>(49,094.57)</u>
FIT Taxable	<u>\$ 234,572.71</u>	<u>\$ 185,149.61</u>	<u>\$ 143,624.03</u>	<u>\$ 126,701.44</u>	<u>\$ 690,047.79</u>
 FICA/Medicare wages					
Gross payroll	\$ 250,203.34	\$ 198,043.63	\$ 157,466.38	\$ 139,920.53	\$ 745,633.88
Adjustments to FICA/Medicare wages					
Flexible spending account	<u>(1,710.21)</u>	<u>(1,541.22)</u>	<u>(1,455.87)</u>	<u>(1,784.22)</u>	<u>(6,491.52)</u>
FICA/Medicare taxable	<u>\$ 248,493.13</u>	<u>\$ 196,502.41</u>	<u>\$ 156,010.51</u>	<u>\$ 138,136.31</u>	<u>\$ 739,142.36</u>
 Gross payroll reconciliation					
Administration					\$ 258,576.17
Public safety					24,744.25
Public works					417,455.22
Recreation					9,877.25
Planning and development					29,744.25
Library					<u>5,236.74</u>
Total payroll					<u>\$ 745,633.88</u>



Audit Procedures – General Disbursements

- Compare actual expenditures to budgeted and prior year amounts for variances
- Trace sample of expenditures to supporting documentation and verify information
- Examine large expenditures



Audit Procedures – Financial Statements

- Trace amounts to general ledger or journals
- Verify math
- Are all financial statements included?



Preparing the Report

Review of the required components of the Auditors Report

Information required to be included in the elected auditors' report (24 V.S.A. §§ 1683, 1684)

- A detailed statement of the financial condition of the town for its fiscal year
- Summary of receipts and expenditures classified by budget category
- List of all outstanding payables which are more than 30 days past due
- Report of deficit, if one exists
- The conditions of all town trust funds, with a list of the assets of the funds, including the receipts and disbursements for the preceding year
- Any outstanding bonds of the town with the rate of interest and the amounts
- Any outstanding interest bearing notes or orders of the town with the serial number, date, amount, payee, rate of interest and total amount thereof

Information required to be included in the elected auditors' report (24 V.S.A. §§ 1683, 1684)	Where it may be found within the report of the professional accountant
A detailed statement of the financial condition of the town for its fiscal year	Balance sheet
Summary of receipts and expenditures classified by budget category	Statement of revenues, expenditures, and changes in fund balance
List of all outstanding payables which are more than 30 days past due	This will not be found in the professional audit report but the treasurer should have a schedule of payables prepared that ties out to the total payables shown in the liability section of the professional audit's balance sheet
Report of deficit, if one exists	Balance sheet
The conditions of all town trust funds, with a list of the assets of the funds, including the receipts and disbursements for the preceding year	Information is found in the financial reports, specifically: (a) information regarding non-expendable trust funds under "permanent" government funds; and (b) information regarding expendable trust funds under "fiduciary funds"
Any outstanding bonds of the town with the rate of interest and the amounts	In the back of the audit in a section called "Notes to the financial statements"
Any outstanding interest bearing notes or orders of the town with the serial number, date, amount, payee, rate of interest and total amount thereof	In the back of the audit in a section called "Notes to the financial statements"



Questions?

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