

## **Statewide Agreed-Upon Procedures – Frequently Asked Questions**

The following frequently asked questions (FAQs) are based on feedback received from local officials and practitioners after the Louisiana Legislative Auditor (LLA) issued the statewide agreed-upon procedures (AUPs) on February 10, 2017. We will continue to update these FAQs periodically as we receive additional feedback.

### **Background and General**

- Why is the Legislative Auditor prescribing these AUPs?
  - For many years, the LLA has worked to address the concerns created by what taxpayers, legislators, and others believe is being examined in an audit and what is actually being provided. Under professional standards, contract auditors are allowed to choose which financial areas to focus on during their audits. In many cases, the contracted auditors tend to focus only on those financial areas that have the highest dollar impact (quantitative risk). Consequently, financial areas that have relatively smaller dollar impacts, but that have a higher risk of fraud, waste, or abuse (qualitative risk), may receive only limited review. The statewide AUPs are designed to address those risk areas that have resulted in much of the fraud, waste, and abuse throughout local government in past years. The goal is to correct the internal control processes of local governments so as to lessen the risk of fraud, waste, and abuse in the future. Because a traditional audit may not cover every risk area, the statewide AUPs will reduce the expectations gap between what taxpayers, legislators, and others believe they are getting in an audit and what is actually being provided.
- What gives the LLA the authority to prescribe these AUPs?
  - The AUPs are permitted under Louisiana Revised Statute 24:513.
- Did the Legislative Auditor consider that these procedures will result in additional costs for local entities?
  - Yes, we acknowledge that the new AUPs may initially result in additional costs; however, we believe that the AUPs will improve accountability and transparency and, over time, yield cost savings for local entities as the risk of fraud, waste, and abuse is reduced, as well as overall operating costs.

- Are the AUPs required to be performed under “Yellow Book” standards?
  - Yes. The AUP report should reference Yellow Book standards in accordance with the provisions of the Local Government Audit Guide.
- If a specific procedure can not be performed because of the nature of the entity’s operations, can an equivalent procedure be applied instead (e.g. alternative sampling population, alternative method of compiling data)?
  - Yes. If the prescribed AUP testing methodology can not be performed (or an equivalent change in methodology would result in the same testing population), the practitioner would need to state that “the prescribed testing methodology was not performed for the following reasons....” The practitioner would then explain the methodology used and the results of the testing.
- Can the practitioner elect to report an exception for a transaction that fully meets the requirements of the agreed-upon procedure, but would be considered an exception if tested as part of an audit (i.e. an audit test would have included more attributes than those required under the AUPs)?
  - Yes. Attest standards allow the practitioner to report “knowledge of matters outside agreed-upon procedures.”
- **New 7/7/17** – If the current year practitioner selects a fiscal period that is different than the entity’s fiscal year and the local entity changes practitioners in a future year, is the successor practitioner bound to the same fiscal period?
  - No. The successor practitioner has the discretion to choose a different fiscal period; however, no gaps can be left between the old fiscal period and the new fiscal period. For instance, if the current practitioner selects a fiscal period ending on March 31, and the successor practitioner selects a fiscal period ending on June 30, the successor practitioner will have to perform a 15-month AUP engagement to cover the April 1 through June 30 gap from the prior year.

**Applicability**

- If a local auditee does not receive \$500,000 or more in public monies but elects to have an audit to meet board or debt service requirements, is the local auditee subject to the AUPs?
  - No. The local auditee would only be subject to the AUPs if it received \$500,000 or more in public monies. However, there is nothing prohibiting the local auditee from voluntarily submitting to these AUPs.

- Do the AUPs apply to charter schools?
  - Yes, the procedures apply to charter schools that currently report to us under the Audit Law.
- Do the AUPs apply to private or parochial schools?
  - No, private and parochial schools are specifically excluded from having to provide audit reports to the LLA under R.S. 24:513 (A)(1)(b)(iv); therefore, they would also be exempt from having to perform AUPs.
- Do the AUPs apply to real estate housing audits that are for-profit limited partnership entities and included as discrete component units of certain housing authorities?
  - No, the AUPs would not be applicable to these entities because of the nature of their operations.
- For sheriffs or other tax collectors, do the AUPs apply to tax collector agency funds?
  - Yes, the procedures do apply to tax collector agency funds. We acknowledge that many of the receipts and disbursements AUPs will be weighted toward these agency funds because of their transaction volume.
- If an entity is a discrete component unit of a larger government, is it subject to the AUPs?
  - If the discrete component unit currently prepares and submits a separate audit report to the LLA under the Audit Law, then it will be subject to the AUPs. If the discrete component unit is currently only reported within a larger government (e.g. in a single column in another government's financial statements), then it will not be subject to the AUPs. Please note that the LLA will not approve a change in engagement reporting methodology for a discrete component unit simply to avoid being subject to the AUPs (our goal is to improve transparency and accountability).
- **New 7/7/17** – Do the AUPs apply to universities or affiliated organizations of universities?
  - No, the AUPs do not apply to universities or any affiliated organizations of a university that fall under R.S. 17:3390, such as foundations, facility corporations, and booster associations.

### **AUP Exceptions**

- Why were the AUPs not made effective until future periods so that local entities would have time to implement corrective actions to avoid AUP exceptions this first year?

- We felt that any additional delays in implementing the AUPs would result in additional losses of public funds due to undetected fraud, waste, and abuse.
- Are AUP exceptions the same as audit findings?
  - No. The practitioner must evaluate whether those exceptions relating to internal controls or compliance are significant enough to be reported as audit findings (e.g. significant deficiency, material weakness). Even if the AUP exceptions are not reported as audit findings, management should still consider the cost/benefit of addressing these exceptions.
- Will each exception to the AUP's be considered to be the equivalent of an audit finding for purposes of applying the "3-strikes rule"?
  - No. Only those AUP exceptions reported as audit findings (e.g. significant deficiency, material weakness) by the practitioner would be included when considering the 3-strikes rule.
- If there is a mitigating or compensating control, does the practitioner still have to report an exception?
  - Yes, the practitioner would have to report an exception to the procedure; however, this can be addressed in a manner that provides an explanation of the mitigating control (e.g. "The board meets quarterly rather than monthly; however, the board treasurer meets with the chief financial officer and director monthly.")
- **New 7/7/17** – Should AUP exceptions be handled in the same manner as audit findings in the LLA report portal? That is, does the practitioner have to copy and paste finding elements from the AUP report into the report portal?
  - No, AUP exceptions are not required to be separately reported in the LLA report portal because they are not considered findings unless they are reported as such in the audit report (e.g. significant deficiency, material weakness).

### **Internal Auditor Considerations**

- Does the audited period used by a school board's internal auditor for school activity accounts need to be a full 12 months in order for the applicable AUP's to be removed from the scope of the external auditor's AUP engagement and "stand alone"?
  - Yes, the internal auditor's scope of work must cover a full 12 month fiscal period in order to remove those specific procedures from the scope of the AUPs.

- Does a school district’s internal auditor need to have certain qualifications/credentials in order to perform the stand-alone work that satisfies the requirements of the AUP’s?
  - The practitioner must document reliance upon the internal audit function as part of the entity's audit in order to utilize the internal auditor(s) to perform work on the AUPs. This would include appropriate consideration of qualifications/credentials, audit plan, supervision of staff, etc., under the auditing standards.
- If certain procedures are removed from the scope of the AUP engagement letter because the entity has agreed to assign their internal auditor to perform them, what are the consequences if the entity’s internal auditor does not perform some or all of these procedures?
  - If some or all of the AUP work is not performed by the internal auditor, then the local entity would need to amend the AUP engagement agreement to include those procedures not performed by the internal auditor. Submitting a report packet to the LLA with incomplete procedures would not be acceptable.
- If an internal auditor performs some or all of the agreed upon procedures, will the practitioner have a role in that work (e.g. oversight, review)?
  - No, the procedures performed by the internal auditor would be removed from the scope of the AUPs, and the practitioner would bear no responsibility for the internal auditor’s work. Also, the LLA will accept the internal audit report as a stand-alone report, even if it is not performed in accordance with attest standards.
- If internal auditor’s work can “stand alone”, should we remove those procedures performed by the internal auditor from our AUP engagement letters?
  - Yes, the procedures performed by the internal auditor should be removed from your AUP engagement letter. Similarly, those procedures performed by the internal auditor should not be included or even referenced in the practitioner’s AUP report.
- If an internal auditor produces multiple reports (e.g. one report for each school in a district) to address those procedures removed from the scope of the AUPs, will the LLA accept multiple internal audit reports rather than a single internal auditor report?
  - While not preferred, we will accept multiple internal audit reports. Please note that the internal audit report(s) will be presented with the audit report and AUP report on the LLA website when published, so this may be a determining factor on whether the local entity wants to issue a single overall internal audit report rather than attaching multiple small internal audit reports.

## **Quasi-Public Considerations**

- If a quasi-public entity receiving one tenth of its revenue from public monies has a credit card that is used to pay all expenses of the organization, including those which are charged to public monies, then are all charges\months subject to the AUPs or only the charges related to the public monies?
  - On page 2 of the AUPs, we discuss that only public monies are required to be tested “if the funds are not otherwise commingled.” If the entity has a mechanism to identify which credit card expenditures are public (e.g. public funds are restricted to certain types of expenditures and the credit card charges are separated for general ledger posting) and can provide a reliably complete population of public credit card transactions, then only the public transactions provided by management would be subject to AUPs.

## **Written Policies and Procedures**

- The existing Best Practices documents on the LLA website do not cover all areas included in the AUPs. Will these be updated soon?
  - Yes, we are in the process of updating and reorganizing our Best Practices to reflect all categories presented on the AUPs. We expect to post these Best Practices to our website in the coming weeks.

## **Board (or Finance Committee, if applicable)**

- Does procedure #2(b) require that monthly budget-to-actual comparisons be presented on a GAAP-basis.
  - No. The GAAP-basis reference was only in relation to identifying the largest funds, including the "General Fund and any additional funds identified as major funds in the entity's prior audit." The information provided to the board does not have to be presented on a GAAP-basis, but the largest (i.e. major) funds should be presented with monthly budget-to-actual comparisons on whichever basis the entity uses, including cash-basis. We included this language to ensure that even major enterprise funds are being evaluated monthly from a best practice standpoint, even though they are not required to be budgeted under the Local Government Budget Act.
- **New 7/7/17** – Procedure #2(b) addresses “those entities with a fund balance deficit.” Does that mean that the deficit spending plan only applies to those entities with an existing fund balance deficit or does it apply to any entity that has deficit spending?

- The procedure only applies to those entities that have a negative fund balance, or a projected negative fund balance. The procedure does not apply to deficit spending through which management is intentionally reducing an existing large fund balance by budgeting the use of the fund balance. Such use of fund balance is allowed under R.S. 39:1301-1315, the Local Government Budget Act (LGBA).

### **Bank Reconciliations**

- **New 7/7/17** – Does procedure #4 require testing for a minimum of 5 bank accounts if the entity has at least 5 bank accounts? For instance, if the entity had 9 bank accounts, then testing 1/3 of the accounts would only result in 3 accounts being tested.
  - Yes. The practitioner should test a minimum of 5 bank accounts if the entity has more than 5 accounts.

### **Collections**

- What does the word “completely” in procedure #6(c), 2<sup>nd</sup> bullet mean?
  - The procedure is intended to demonstrate that the entity has some form of source documentation to support its cash collections. In many past instances of fraud, the entity had pre-numbered receipts or some other way of verifying completeness of collections/deposits but never used the documentation for that purpose. In a low volume collection environment, you may only have a stack of receipts to balance to daily collections/deposits. However, if the same entity prepared a daily reconciliation or posting sheet that was compiled by a separate employee, we would consider that reconciliation or posting sheet to represent complete documentation. Similarly, if collections are entered into a computer system at the point of collection, a system report that is used for both cash balancing and account posting would also suffice. The phrase "or other related collection documentation" is intended to provide flexibility in the nature of supporting documentation needed to verify that cash is supported.
- **Updated 7/7/17** – How would procedure #6, first paragraph, which allows the exclusion of school student activity funds that are addressed in a separate audit or AUP engagement, be applied?
  - Some school boards ask a different CPA (someone other than the audit firm performing the school board audit) to perform standards-based procedures on school activity funds. These engagements are handled through the LLA as a separate engagement from the regular audit of the school board, and we receive and issue those reports separately. If you have a similar arrangement at a school board that you

are auditing as the primary auditor, any procedures covering bank reconciliations or collection locations addressed by the other firm could be removed from the scope of your statewide AUPs. Because these reports are sent to us anyway, you would not need to include them in the pdf file with the audit report, statewide AUP report, and internal audit report (if applicable). **Both the primary auditor and the other CPA firm may use different 12-month fiscal periods, if applicable.**

- **Updated 7/7/17** – In the case of school student activity funds, concession stands, gate receipts, etc., how should a practitioner define a “cash collection location”?
  - If there is a central person (secretary or bookkeeper) through which collections are deposited ~~and amounts owed for individual students are tracked (e.g. if a teacher collecting cash were to steal the cash, is there any mechanism to identify that a student's payment has not posted to his/her account balance?)~~, then this would be considered a single collection location for purposes of the AUPs.
- **New 7/7/17** – When testing school cash collections, what documentation does the practitioner need to obtain and verify relative to classroom collections by teachers?
  - For school board only, the practitioner is required to test documentation at the secretary/bookkeeper level and is not required to test for completeness of revenues relative to classroom collections by teachers.
- **New 7/7/17** – Does procedure #6 require testing for a minimum of 5 cash collection locations if the entity has at least 5 locations? For instance, if the entity had 9 locations, then testing 1/3 of the accounts would only result in 3 locations being tested.
  - Yes. The practitioner should test a minimum of 5 cash collection locations if the entity has more than 5 locations.

### **Disbursements – General**

- For procedures #8 and #9, do decentralized/manual accounting systems, such as school activity fund accounts, need to be included in the testing population?
  - Yes, all disbursement accounts should be included in the population used for testing. Account disbursements are often handled by the secretaries/office staff at each school, so having the school board central office staff ask each school for the beginning and ending check numbers on each of their accounts would provide a listing of entity disbursements for the testing population.

- For procedures #8-14, should each school within a school district have its own test of 25 disbursements?
  - Only 25 disbursements would be required for the school district as a whole. Certainly, you may perform more testing than 25 district-wide disbursements if testing at each school is easier to manage from an administrative standpoint. As we note in the first paragraph of the AUPs, the AUPs "are intended to represent a minimum level of additional work," so testing in excess of the minimum is allowed.
- Procedure #9 requires supporting documentation for each transaction, such as a receiving report. If the entity's written policies and procedures do not require all documentation listed in the procedure, should this be reported as an exception?
  - Yes, it would be identified as an exception. You could consider including language such as, "None of the items tested included a receiving report because the entity's written policies and procedures do not require such documentation." If management has compensating controls, they can provide that information in their response.
- **New 7/7/17** – Procedure #12 requires an inquiry of management and an observation that the supply of unused checks is maintain in a locked location with restricted access. For those entities with supplies of unused checks maintained in multiple geographic locations, is an “observation” required at each geographic location?
  - No, an “observation” can be limited to those locations that are visited by the practitioner as part of other AUP testing procedures (i.e. no separate trip is required just to perform an observation of unused checks). If a location is not visited, then “inquiry of management” would suffice.

### **Credit Cards/Debit Cards/Fuel Cards/P-Cards**

- For procedure 16(c) “ If the nature of the transaction precludes or obscures....” Does this mean that if a charge was made for dinner at a Casino Steakhouse with no documentation of business purpose, should the practitioner presume this is a personal charge and report?
  - It is not "presumed" to be personal, but it should still be reported as an exception because the nature of the transaction (and related or missing documentation) precludes or obscures a comparison to the requirements of Article 7, Section 14, of the Constitution.

### **Travel and Expense Reimbursement**

- For procedures #17-19, why are GSA rates used as the standard to evaluate those rates established in policy by the local entity?
  - The GSA rates provide a nationwide baseline that represents a "reasonable" threshold for comparison purposes. Also, reimbursements in excess of these rates may represent taxable income to employees.
- If the rates in policy exceed the GSA rates, why document an exception if the rates in policy are legally permissible?
  - Exceptions under this procedure represent possible abuse of public funds rather than legal compliance.
- Should travel charges on credit cards be included for testing under procedures #17-19?
  - No, at least for this first year, credit card charges for travel are subject to the specific requirements under procedure #16. Procedures #17-19 only apply to reimbursements of expenses to employees.
- **New 7/7/17** – Should non-travel reimbursements be subject to testing under this section of the AUPs?
  - No, only travel-related expense reimbursements are subject to testing.
- **New 7/7/17** – Should travel reimbursements paid through student activity accounts be included in the population subject to AUP testing?
  - Yes, travel reimbursements from student activity accounts would be included in the population.

### **Contracts**

- For procedure #21(c), if we select our sample from the general ledger, how do we know if the contract was amended?
  - Procedure #21, first paragraph, states in part, to "obtain the related contracts and paid invoices." The referenced "related contracts" would include contract amendments.

### **Payroll and Personnel**

- For procedure #25, do we need to verify whether payroll taxes and retirement contributions are accurately calculated?

- No, this procedure only requires verification that the entity is submitting both its employee and employer portions of payroll taxes and retirement contributions during the fiscal period. The procedure does not require verification that the entity is properly calculating these amounts.

### **Other**

- For procedure #32, does the notice need to be on both the website and the premises? Is it required for each location, and if yes, can the local entity limit observation to the main facility?
  - The notice is required to be posted on both the website and premises. Observation can be limited to those geographic locations visited during the performance of other procedures under the AUPs. That is, if all records are at a home office, then the practitioner would not need to travel to a satellite office simply to perform procedure #32.