



# Statutory Audits

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*A COUNTY SCREAMS in*

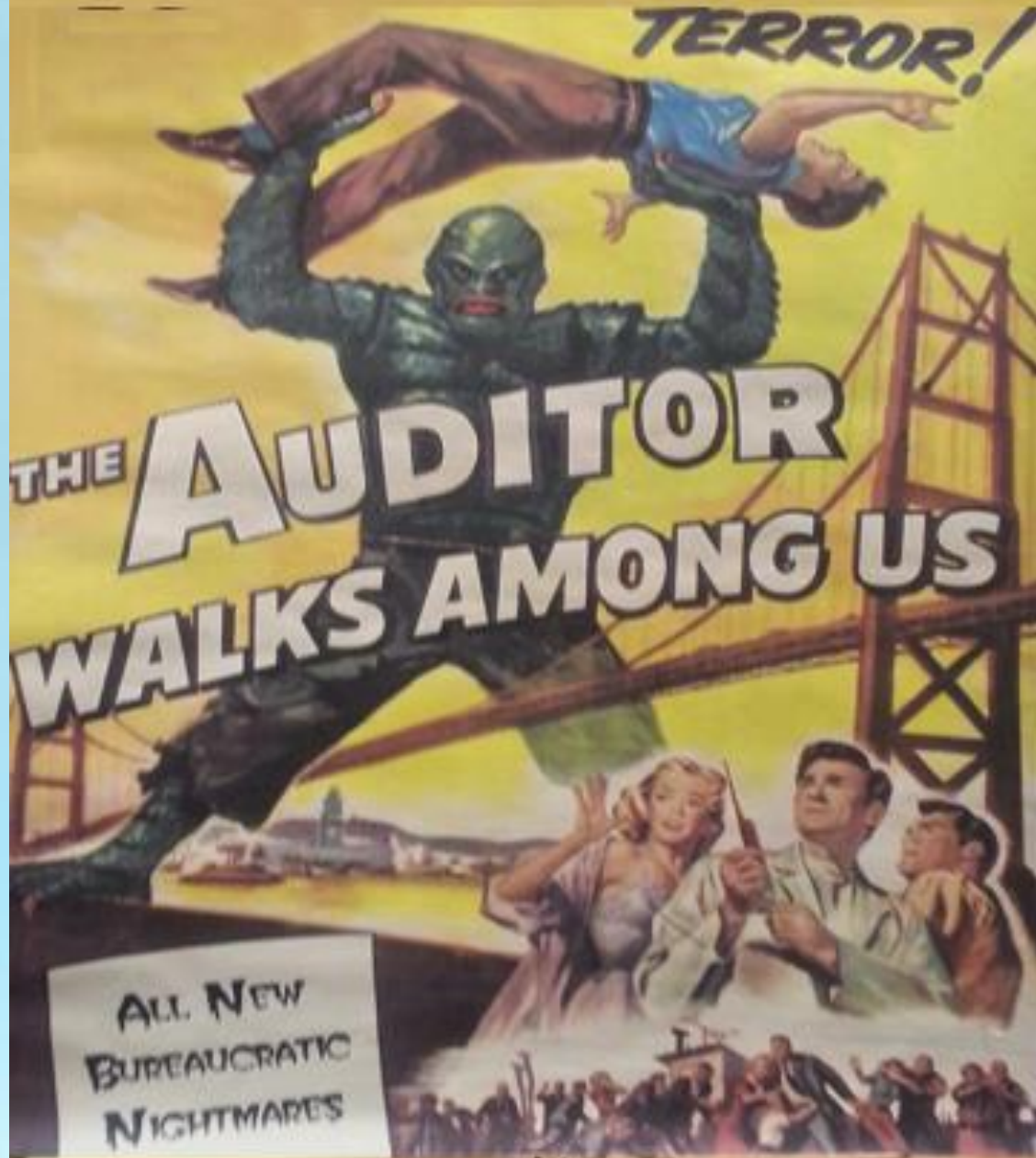
**TERROR!**

**THE AUDITOR  
WALKS AMONG US**

ALL NEW  
BUREAUCRATIC  
NIGHTMARES

*Oh!*

*The Humanity!*



# Statutory Audit Responsibilities

- By law, county auditors have two major responsibilities:
  - Bookkeeping
  - Auditing
- Past emphasis in many counties has favored bookkeeping, while auditing took a back seat.
  - A review of the law shows that should not be the case.
- Auditing should be at least as important as the bookkeeping.
- I would argue the auditing responsibility is more important.

# Statutory Audit Responsibilities

- Carefully consider the risk to your county and you of not auditing. Without auditing, can you be assured:
  - That all money due to the county is being collected?
  - That all money held by the county is being adequately safeguarded?
  - That money collected is being properly disbursed?
  - That county property is being used and managed properly?
- Failure to comply with your audit responsibilities could result in your removal from office.

# Who has audit responsibilities?

- Obviously – you, the county auditor, has.
- But you are not the only ones:
  - The law also requires county treasurers and commissioners court to audit.
- The difference – your audit responsibilities are much broader.
- Working together, the three – auditor, treasurer and commissioners court – are much stronger as a team.



# Basic Audit Responsibility

- Responsibility and areas covered are very broad; for example:
  - Are purchases based on approved requisitions?
  - Are the bidding/proposal statutes being complied with?
  - Is money collected remitted to Treasurer in accordance with Rapid Deposit Law?
  - Is all money held by county officials deposited only in the depository?
  - Are restricted revenues being spent only for authorized purposes?

# Basic Audit Responsibility (continued)

- Is the county staying within the adopted budget?
- Are provisions of Fair Labor Standards Act being complied with?
- Is machinery and equipment being used only for county purposes?
- Are reports by officials being done as required by law?
- Is the depository bank collateral in a sufficient amount and of an authorized type?

My point is – the list is endless.

And the audit function is continuous.

## Who Do You Audit and When?

- Audit anyone necessary, and as frequently as needed, to provide reasonable assurance that the laws governing county finances are complied with.
- The old adage is a good one to remember:

**-In God We Trust and  
All Others We Audit!!**



# LGC 113.064 - Claims, Bills and Accounts

- (a) In a county that has the office of county auditor, EACH claim, bill, and account against the county must be filed in sufficient time for the auditor to examine and approve it before the meeting of the commissioners court. A claim, bill, or account may not be allowed or paid until it has been examined and approved by the auditor.
- (b) The auditor shall stamp each approved claim, bill, or account. If the auditor considers it necessary, the auditor may require that a claim, bill, or account be verified by an affidavit indicating its correctness.
- (c) The auditor may administer oaths for the purposes of this section.

# Audit Responsibility

- Examine and approve **EACH** claim, bill and account against the county.
- Requirement is specific and includes:
  - All county purchases
  - All services rendered to the county
  - All refund requests made to the county

# Audit Responsibility (continued)

- You must ensure that:
  - Goods ordered were actually received
  - Goods received were of the proper type and quantity
  - Contract services were actually performed
  - Contract provisions were complied with
  - Bills and claims are for the correct amount
  - The county is legally obligated to pay
- Continuous audit function is implied.
- Any office or official should be audited in order to approve a claim, bill or account.

# Local Government Code 115.001 - EXAMINATION OF RECORDS

The county auditor shall have continual access to and shall examine and investigate the correctness of:

- (1) the books, accounts, reports, vouchers, and other records of any officer;
- (2) the orders of the commissioners court relating to county finances; and
- (3) the vouchers given by the trustees of all common school districts of the county.

Number 3 affects very few county auditors. If you have a school district, refer to the AG opinions (O-2734, O-2734A and O-6260 are starters.)

# LGC 115.001 - # 1 and # 2

- Very broad yet very specific
- Examine and investigate the correctness of:
  - Commissioners Court orders relating to county finances
  - All officers books, accounts, reports, vouchers, and other records
  - This includes any financial record, document or report, including:
    - Taking in money
    - Preparing bank deposits
    - Bookkeeping
    - Reconciling bank statements
    - Safeguarding money and other assets
    - Preparing disbursements and remittances
    - Preparing internal and external reports
    - Keeping court records

# LGC 115.001

- I did not see anything about how often you are to audit
- I did see you are to audit as frequently and in as much depth as is necessary to provide reasonable assurance the items subject to audit are correct.
- Leads directly into LGC 115.002 – Reports and Books



## LGC 115.002 – Books and Records

- (a) The county auditor shall carefully examine and report on all reports that are about the collection of money for the county and that are required to be made to the commissioners court.
- (b) At least once each quarter, the county auditor shall check the books and shall examine in detail the reports of the county tax assessor-collector, the county treasurer, and all other officers. The auditor shall verify the footings and the correctness of those books and reports. The auditor shall either stamp the books and reports approved or shall note any differences, errors, or discrepancies.
- (c) The auditor shall carefully examine the report made under Section 114.026 by the county treasurer, together with the canceled orders for payment that have been paid. The auditor shall verify those orders with the register of orders issued as shown on the auditor's books.

# LGC 115.002

## Three Separate Audit Responsibilities

1. Examine and report on all reports about the collection of money for the county that are required to be made to Commissioners Court. This includes reports made by:
  - Tax Assessor – Collector
  - County Clerk
  - District Clerk
  - Justice of the Peace
  - County Sheriff
  - County Attorney
  - Anyone collecting county taxes

# LGC 115.002

## Three Separate Audit Responsibilities

2. At least quarterly, audit the books and reports of the county tax assessor-collector, county treasurer and all other officers.
  - What are you auditing:
    - Verify the books are mathematically correct
    - Verify the records are correct; that is:
      - Do they reflect the transactions that actually occurred?
      - Do they reflect all the transactions that occurred?
      - Do they reflect what actually did occur?

# LGC 115.002

## Three Separate Audit Responsibilities (continued)

2. At least quarterly, audit the books and reports of the county tax assessor-collector, county treasurer and all other officers.
  - You are to specifically approve the books and reports or note the differences/errors/discrepancies.
  - Implies the entire year of an office be audited, on a quarterly basis.
  - What you audit and how deep you audit is up to your judgment.

# LGC 115.002

## Three Separate Audit Responsibilities

3. Examine the treasurer's monthly report to the commissioners court and cancelled warrants (checks), comparing those warrants (checks) with the auditor's books.
  - The treasurer's monthly report covers:
    - Money received and disbursed
    - Debts due to and owed by the county
    - All other proceedings in the treasurer's office
  - More than just making sure the numbers are valid
  - Provides proof that accounting for all transactions resides in the auditor's office:
    - In order to comply with statute, the auditor has to keep a set of books you use to compare with the treasurers cancelled warrants (checks)

# LGC 115.003 - EXAMINATION OF FUNDS HELD BY COUNTY TREASURER

- (a) At least once each quarter, or more often if the county auditor desires, the auditor shall, WITHOUT ADVANCE NOTICE, fully examine the condition of, or shall inspect and count, the cash held by the county treasurer or held in a bank in which the treasurer has placed the cash for safekeeping.
- (b) The auditor shall make sure that all balances to the credit of the various funds are actually on hand in cash and that none of the funds are invested in any manner except as authorized by law.



# LGC 115.003 – Three Audit Responsibilities

1. At least quarterly, examine the money in the custody of the treasurer, including the treasurer's balances in the depository.
  - Is everything there that is supposed to be there, both in the treasurer's office and at the depository?
2. Make sure all balances to the credit of the various funds are on hand.
  - Does the cash on hand the depository balances reconcile to the books? Is there money (cash or depository balance) to support what is shown on the books?
3. Make sure funds are invested legally.
  - Are all investments authorized by law, both as to the source of funds invested and the type of investment?

## LGC 115.0035 - EXAMINATION OF FUNDS COLLECTED BY COUNTY ENTITY OR THE DISTRICT ATTORNEY

- (a) For purposes of this section, "accounts" means all public funds that are subject to the control of any precinct, county or district official, including the accounts of law enforcement agencies and the attorney for the state composed of money and proceeds of property seized and forfeited to those officials.
- (b) At least once each county fiscal year, or more often if the county auditor desires, the auditor shall, without advance notice, fully examine the accounts of all precinct, county and district officials.

Continued on next slide

## LGC 115.0035 - EXAMINATION OF FUNDS COLLECTED BY COUNTY ENTITY OR THE DISTRICT ATTORNEY

- (c) The auditor shall verify the correctness of the accounts and report the findings of the examination to the commissioners court of the county at its next term beginning after the date the audit is completed.
- (d) This section does not apply to funds received by the attorney for the state from the comptroller of public accounts pursuant to the General Appropriations Act, or to federal or state grant-in-aid funds received by precinct, county or district officials.

## LGC 115.0036 - EXAMINATION AND AUDIT OF RECORDS OF CERTAIN SPECIAL DISTRICTS

- (a) The county auditor shall have continual access to and may, at the county auditor's discretion, examine the books, accounts, reports, vouchers, and any other records of:
  - (1) a special district if the district's budget requires the approval of the commissioners court; and
  - (2) any subsidiary of a special district described by Subdivision (1) that is supported wholly or partly by public funds.
- (b) The county auditor, with the approval of the commissioners court, may audit the books, accounts, reports, vouchers, and any other records of an entity described by Subsection (a) if the county auditor determines an audit is necessary after conducting an examination under Subsection (a).

## LGC 115.004 - AUDIT IN COUNTY WITH POPULATION OF 190,000 OR MORE

- (a) This section applies only to a county with a population of 190,000 or more.
- (b) At the end of the fiscal year or the accounting period fixed by law, the county auditor shall audit, adjust, and settle the accounts of the district attorney, the district clerk, and each county or precinct officer.
- (c) If the county auditor is unable to obtain proper reports or an adequate accounting from any of those persons, either during or after the person's term of office, the auditor may require an accounting and may proceed at the county's expense as the auditor considers necessary to protect the interest of the county or of the person entitled to any funds.

## LGC 115.004 - AUDIT IN COUNTY WITH POPULATION OF 190,000 OR MORE

- Simple requirement – annual audit is to be done on required offices.
- In other words, for the year completed:
  - Are the books, reports and records correct?
  - Was money received and disposed of appropriately?
  - Were finance related laws and statutes complied with?



## CCP 103.011 – Audit of Receipts

An officer shall deliver the receipt book or a copy of any receipt records contained in a computer database to the county auditor at the end of each month's business or at the end of each month shall allow the county auditor electronic access to receipt records contained in the computer database.

The county auditor shall examine the receipt book or computer records and determine whether the money collected has been properly disposed of. If each receipt in a receipt book has been used, the county auditor shall keep the book.

If any receipt in the book has not been used, the auditor shall return the book to the officer. The county auditor may keep a copy of computer generated receipt records delivered to the county auditor. Any person may inspect a receipt book or a computer generated receipt record kept by the county auditor.

# Summary

## County Auditor Statutory Responsibilities

- See to the strict enforcement of the law governing county finances
- Examine and approve all claims against the county
- Audit commissioners court orders relating to county finances
- Audit books, accounts, reports, vouchers, and records of all offices
- Audit treasurers monthly report to commissioners court and cancelled warrants (checks)
- Audit treasurers balances, funds and investments quarterly
- Audit annually accounts of district, county and precinct officers (if population is 190,000 or more)
- Audit receipt books in criminal cases monthly

# Statutory Authority

- Establishes legal rights you have to fulfill your statutory responsibility
- Four types of statutory authority conferred upon a County Auditor:
  - Oversight Authority
  - Access Authority
  - Prescriptive Authority
  - Verification Authority
- Covered extensively in Chapter 8 of the Handbook on SmartSheet
- **MOST IMPORTANT STATUTE** – covers everything: LGC 112.006 (b)
  - The County Auditor shall see to the strict enforcement of the law governing county finance.

# Oversight Authority

- Exercise watchful and responsible care as well as ensure strict enforcement of the laws governing county finances. Statutes imply a continuous audit process in the oversight area.
- Local Government Code 112.006
  - a. The County Auditor has general oversight of the books and records of a county, district, or state officer authorized or required by law to receive or collect money or other property that is intended for the use of the county or that belongs to the county.
  - b. The County Auditor shall see to the strict enforcement of the law governing county finances.
- Oversight means watchful and responsible care for. That means not only access, but also ensuring they are properly maintained.

# Access Authority

- Right of continuous access to all books, accounts, reports, vouchers, and other records of any officer, elected or appointed. Statutes require a continuous audit process in the access area.
- Access to all orders of commissioners' court, including support, as well as authority to enter, inspect or review anything that pertains to county finances.
- Local Government Code 115.001 – includes:
  - Books of original entry, accounts maintained, reports other than those made to the court, vouchers, and any other records you deem necessary.
  - Not limited to fiscal evidence, but also includes internal policies and internal controls.
  - Reports dealing with collection of money, bank reconciliations, deposits, disbursements, court records, and assets would be essential.
- Access means the liberty to enter, look at or review. You have the right to enter an officer, look at, and review those items you have to audit.

# Prescriptive Authority

- Specifically authorized to prescribe the accounting systems for the county, as well as to prescribe the frequency, format and content of reports made by any office to the County Auditor.
- Population bracketed – below and over 190,000
- **Local Government Code 112.002** - (a) and (b)
  - Shall prescribe the system of accounting
- **Local Government Code 114.002**
  - The County Auditor shall determine:
    - The time and the manner for making reports to the auditor, and
    - The manner for making an annual report of:
      - Office fees collected and disbursed, and
      - Office fees refunded to the county in excess of those that the officer is permitted by law to keep.
- Prescribe means to require or dictate; it includes the accounting/bookkeeping system and the frequency and format/content of reports made to the auditor.



# Verification Authority

- LGC 113.064. Must examine and approve all claims or bills before payment, including all county purchases, any service rendered, and all refund requests. Statutes imply a continuous audit process.
- Internal audit responsibilities include:
  - Assurance all monies due the county are collected, safeguarded and spent properly
  - Assurance all county property is properly accounted for, used and managed
  - Examination of all reports regarding the collection of monies
  - Auditing without advance notice the offices of county tax assessor-collector, county treasurer and all other officers at least quarterly
  - Examine and approve each claim, bill and account before payment authorized by Commissioners Court
- Verification means to determine the validity of claims, bills or accounts

# How to Use Your Authority

- The first three relate to auditing in general
- Access, oversight and prescriptive are used in conjunction with each other to be effective
- Think of it this way:
  - Access gets you in
  - Prescriptive allows you to say how
  - Oversight helps you ensure it is done right
- Authority is a lot like knowledge. To be worth something it has to be used – and you and you alone determine how much your authority is worth
- Is it because the law confers the authority on you, or because you have earned the respect and confidence from others

# How to Gain That Respect and Confidence

1. Thoroughly learn your own duties and responsibilities
  - Don't let anyone know more about your job than you do
  - You have to know the laws; get your own house in order first
2. Get your foot in the other offices
  - Study up on the offices
  - Set up a meeting with the official/department head
  - Explain you can't do your job well without their help
  - Admit they know more about their office/department than you do
  - Explain your responsibilities giving copies of statutes, etc.
  - Explain what you'll be doing in relation to their office and why

# How to Gain That Respect and Confidence

## 3. Learn about their office

- Be willing to learn
- Take the time to learn
- Show an interest in what they do
- Visit periodically, not just when you are auditing
- Obtain and review copies of procedures, manuals, laws, etc.
- Attend some meeting of their association if possible

## 4. Keep the big picture in mind – that is, you are serving the public

- Your purpose/goals are the same as theirs – to serve the public
- Think about how that purpose can best be achieved
- Don't nitpick
- Have an attitude of working together

# How to Gain That Respect and Confidence

## 5. Pat them on the back – give them credit

- Find positives about their office and operations
- Tell them the positives – give compliments
- When a success or improvement is achieved, let them take the credit

## 6. Be helpful

- Give of your time
- Don't just bring to light a problem or deficiency
- Offer a solution
- Where possible, help them implement a solution
- Give follow-up assistance – not just one-time instructions

# How to Gain That Respect and Confidence

## 7. Take one step at a time

- Don't expect/require too many changes/improvements at a time
- Remember Rome wasn't built in a day
- Others will be more willing to change in small bites
- Doing too much at once will confuse and decrease confidence

## 8. Be practical

- Ask relevant questions
- Find out the real reasons why
- Offer practical, workable solutions
- Don't assume or imply your time is more valuable than theirs
- Don't prescribe procedures solely because it save you audit time
- Don't require standardization for the sake of standards – each office is unique



# How to Gain That Respect and Confidence

## 9. Show them how to audit their own office

- Give them audit programs
- Show them how to perform the steps
- Show them how to document findings
- It will help them be “audit prepared”
- It will help them be better managers
- It will improve your audit results

## 10. Maintain your presence in their office

- Keep your visits up when everything is going well
- Periodically review all types of records, documents, etc., even when you may not really need to
- This “presence” makes it easier to audit/inspect some things when there is a need

# Audit Universe

- Who Statutory Offices
- What Receipts, Disbursements, Controls, Fixed Assets
- When Monthly, Quarterly, Annually
- How Audit Plan, Audit Program, Testing, Notification of Findings

# List of Statutory Audits

- Includes all county offices collecting money
- Think carefully – it is not always about taxes, fees and charges

Elections	Engineer/Permits	Parking Facilities	Ambulance Service
County Clerk	Adult Probation	Fire Marshall	Sheriff-Bail Bond
District Clerk	Scrap Auction/Sales	Personal Bond Office	Sheriff-Commissary
Constables	Health Department	Payroll Deductions	Sheriff-Inmate Trust
Treasurer	Housing Assistance	Public Libraries	Medical Examiner
Justice of the Peace	District Attorney	Recycling Programs	Seized/Forfeited Assets
Tax Assessor/Collector	Juvenile Probation	Retiree Benefits	Lease/Sublease/Rent
Parks and Recreation	Law Library	Port/Navigation District	Toll Road Authority

# Statutory Audits not related to collection

I am certain there are probably others, but this covers most.

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Accounts Payable	Social Services	Grant Programs
Administrative Services	Fixed Assets	Purchasing Contracts
Children's Services	Grant Subrecipient Monitoring	Risk Management
Concessionaire Agreements	Hospital District	Pretrial Services
Construction Activity	Insurance	Sheriff-Jail Operations
Economic Development	Inventory	Right of Way
Emergency Management	Jury – Cash Payouts	Health Benefit/Claims Paid
Vendor Database	County Attorney	Vehicle Maintenance
FEMA Funding	Volunteer Fire Department	Commissioners Court Orders

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# But which office do I do first?

- **Evaluate the risk:**
  - Loss of money or assets
  - Loss of reputation
  - Loss of control
  - Loss of citizen trust
- **Ask two questions:**
  - What is the probability that things can go wrong (the probability of one event)?
  - What is the cost if what can go wrong does go wrong (the exposure of one event)?

# Golden Rule of Risk Assessment

## Auditor's Prayer:

“Lord, if something is out there,  
please let me find it.

And, if it is there and I don't find it,  
don't let anyone else find it.”



# Risk factors

- Frequency and quality of auditing
- Size and complexity of auditee's operations
- Managerial attitudes and morale in the auditee's office
- Employee attitudes and morale in the auditee's office
- External factors such as the press, controversy, politics, etc.

Internal Audit  
Risk Evaluation Form

Date: \_\_\_\_\_

Division: \_\_\_\_\_

Department: \_\_\_\_\_

Business Function: \_\_\_\_\_

**PURPOSE OF THE RISK EVALUATION**

The purpose of the risk evaluation is to identify the inherent risk of performing various business functions. Audit resources will be allocated to the functions with the highest risk. The risk evaluation will directly affect the nature, timing and extent of audit resources allocated.

The two primary questions to consider when evaluating the risk inherent in a business function are:

- \* What is the probability that things can go wrong (the **probability** of one event)?
- \* What is the cost if what can go wrong does go wrong (the **exposure** of one event)?

Risk is evaluated by answering the above questions for various risk factors and assessing the probability of failure and the impact of exposure for each risk factor. **Risk** is the probability times the exposure.

The risk factors inherent in business include the following:

* access risk	* business disruption risk
* credit risk	* customer service risk
* data integrity risk	* financial/external report misstatement risk
* float risk	* fraud risk
* legal and regulatory risk	* physical harm risk

**EVALUATION OF RISKS AND PROBLEM AREAS**  
**JUSTICE OF THE PEACE, PRECINCT 1**  
**DATE OF EVALUATION: XX/XX/XX**

RISK FACTOR	COMMENTS
<b>FREQUENCY AND QUALITY OF AUDITING</b>	
Frequency of examinations	Meeting statutory requirements
Quality of examinations	Generally OK, except Jan-Mar not as thorough due to time spent on another special project audit.
Audit planning	OK. Need to review and amend audit program to cover the new changes in the computer system.
<b>ADEQUACY OF INTERNAL CONTROL</b>	
Segregation of duties	Adequate, except for dismissals.
Safekeeping of assets	No separate change drawers, and access to change drawers is unlimited.
Sound policies & procedures	Adequate, except that one clerk who receives cash also initiates dismissals. Judge approves the dismissals on a "batch basis" by initialing a list at month end.
Adherence to policies & procedures	Good in significant areas

## RELATIVE RISK RANKING BY OFFICE

DATE OF EVALUATION: XX/XX/XX

1=LOWEST RISK & 6 =HIGHEST RISK	AUDITEE					
RISK FACTOR	A	B	C	D	E	F
FREQUENCY AND QUALITY OF AUDITING						
Frequency of examinations	2	6	1	3	6	4
Quality of examinations	1	1	3	3	2	1
Audit planning	1	1	2	3	2	1
ADEQUACY OF INTERNAL CONTROL						
Segregation of duties	2	2	5	1	2	1
Safekeeping of assets	1	2	2	1	1	1
Sound policies & procedures	3	2	4	1	1	1
Adherence to policies & procedures	1	1	6	1	1	1



*“User name and password?”*

# Identify available resources

NAME	TITLE	AVAILABLE TOTAL HOURS	HOLIDAY HOURS	VACATION HOURS	NON-AUDIT HOURS	AVAILABLE AUDIT HOURS
Smith	County Auditor	2,080	(80)	(80)	(1,200)	720
Jones	Audit Manager	2,080	(80)	(80)	(320)	1,600
Thomas	Auditor	2,080	(80)	(120)	(60)	1,820
Perkins	Auditor	2,080	(80)	(80)	(60)	1,860
Wilson	Auditor (PT)	1,040	(40)	0	(20)	980
TOTAL		9,360	(360)	(360)	(1,660)	6,980



# Allocation of audit resources

- After determining available hours and assessing the risk, prepare a table using the audit plan with the audit risk and total audit hours to be used for each auditee.
  - Just because risk on a particular auditee is high, do not arbitrarily assign a large amount of time to its audit.
  - Allocation should be based on time required to complete steps in audit program.
  - The example in no way indicates hours allocated are reasonable for any given auditee.
  - Audit risk could be shown as high, moderate or low, or you could rank the risk using 1 to 10. Any approach is acceptable as long as the results are justifiable.

AUDITEE	AUDIT RISK	TOTAL HOURS	SMITH	JONES	THOMAS	PERKINS	WILSON
Tax Assessor	High	1,420					
County Clerk	Moderate	1,080					
District Clerk	Low	700					
Justice of the Peace, Pct. 1	High	960					
Justice of the Peace, Pct. 2	Low	720					
Sheriff - Commissary	High	680					
Sheriff - Bail Bonds	Low	620					
Juvenile Probation	Moderate	400					
Cushion for Requested or Fraud Audits	N/A	400					
<b>TOTALS</b>		<b>6,980</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>AUDITEE</b>	<b>AUDIT RISK</b>	<b>TOTAL HOURS</b>	<b>SMITH</b>	<b>JONES</b>	<b>THOMAS</b>	<b>PERKINS</b>	<b>WILSON</b>
<b>Tax Assessor</b>	<b>High</b>	<b>1,420</b>	<b>185</b>	<b>500</b>	<b>580</b>		<b>155</b>
<b>County Clerk</b>	<b>Moderate</b>	<b>1,080</b>	<b>75</b>	<b>200</b>		<b>580</b>	<b>225</b>
<b>District Clerk</b>	<b>Low</b>	<b>700</b>	<b>30</b>	<b>100</b>	<b>570</b>		
<b>Justice of Peace Pct. 1</b>	<b>High</b>	<b>960</b>	<b>80</b>	<b>200</b>	<b>670</b>		<b>10</b>
<b>Justice of Peace Pct. 2</b>	<b>Low</b>	<b>720</b>	<b>10</b>	<b>100</b>		<b>430</b>	<b>180</b>
<b>Sheriff - Commissary</b>	<b>High</b>	<b>680</b>	<b>50</b>	<b>180</b>		<b>300</b>	<b>150</b>
<b>Sheriff - Bail Bonds</b>	<b>Low</b>	<b>620</b>	<b>10</b>	<b>120</b>		<b>400</b>	<b>90</b>
<b>Juvenile Probation</b>	<b>Moderate</b>	<b>400</b>	<b>40</b>	<b>40</b>		<b>150</b>	<b>170</b>
<b>Cushion For Requested Or Fraud Audits</b>	<b>N/A</b>	<b>400</b>	<b>240</b>	<b>160</b>			
<b>TOTAL</b>		<b>6,980</b>	<b>720</b>	<b>1,600</b>	<b>1,820</b>	<b>1,860</b>	<b>980</b>

After risk assessment, what is next?

## Create the Audit Plan, then the Audit Program

- Identify the department or process to audit.
- Ask and answer these questions:
  - What are we concerned about? (The objectives)
  - What will we audit? (The scope)
  - What documents are needed? (The methodology, i.e., flowcharts, narratives, ICQ's, etc.)
  - What will we do? (The audit program)
  - When do we start? (The audit calendar)
  - How long will it take? (The resources required and available)

# Audit Plan

- Planning Phase
- Fieldwork Phase
- Report Phase
- Publication Phase
- Post Audit Phase

# Tools and techniques

- **Preliminary Survey – accumulate information about office or function audited. Clarify expected outcomes, including:**
  - **Purpose of that specific audit**
  - **Engagement objectives, scope and timing**
  - **Processes to be audited**
  - **Area objectives, related risks and controls**
  - **Internal audit resources to be used**
  - **Relevant standards and statutes**



# Analytical Review

- At Galveston County, we flowchart each office and then use that to look at the “forest.”
- In a JP office, we look and graph 5 years of data to see what changes have occurred:

Citations filed in the court

Number/Amount of refunds issued

Number/Amount of fines collected

Number of employees

Fines dismissed

Staff turnover

Number of receipts issued

Cash collections vs. check collections

# Review of past audit documents

- Provides familiarity with area being audited
- Offers overview of what to expect
- Shows how others have approached the audit
- Identifies problems found and reported
- Reveals status of actions taken or not taken
- Reveals strengths previously identified
- Identifies other activities for evaluation

# Document and review current items

Organizational information	Project plans
Recent changes in the organization, including major system changes	Budget information, operating results, and financial data reviewed
Job descriptions	Performance Reports
Authority and responsibility	External audit results
Attorney General Opinions or Letter Responses	Commissioners Court agenda items affecting auditee
Objectives and goals for the organization overall	Risk management evaluations
Procedural manuals, instructions and directives, especially for state associations	Public documents relating to the area under audit

# Audit Objectives and Scope

- Audit Objectives
  - What the audit is intended to accomplish
  - Identifies the audit subject matter and performance aspects
  - Think of objectives as questions about the program that you will answer based on the evidence obtained and assessed against criteria
- Audit Scope
  - Boundary of the audit
  - Defines subject matter to be assessed and reported on
- Objective and scope defines what the audit is and is not

# Internal Control Evaluation

- Adequate internal control evaluation is the backbone of audit planning.
- It is the primary basis for assessing the various risks related to each auditee.
- Internal controls are not a guarantee, because a system of internal controls should be cost effective.
- The cost should not outweigh the benefits.

# Audit Methodology

- Describes nature and extent of audit procedures for gathering and analyzing evidence
- Audit procedures are the specific steps and tests performed to address the audit objectives
- Design methodology to obtain reasonable assurance the evidence collected is sufficient and appropriate to support your findings and conclusions and to reduce risk to an acceptable level

# Auditing the JP Office

## Definition - Auditing

Auditing is simply examining information and operations to ensure their mathematical accuracy, legality and propriety. It is a process of determining whether all transactions are properly recorded in the accounts, and appropriately reflected in statements and reports.

The type of information and operations that can be examined include:

- documents;
- records;
- reports;
- systems of internal control;
- accounting procedures; and
- actual operations.

Someone who works for the organization being audited performs the internal audit. For example, the county auditor is an internal auditor.

## Objectives of Internal Auditing

Texas statutes have five objectives for internal auditing of justice of the peace offices. They are to help assure that:

1. the justice has collected all the money that he or she is supposed to collect;
2. the money collected was properly remitted to the appropriate party (e.g. Texas Comptroller, Parks and Wildlife, county treasurer, etc.);
3. other property is properly managed;
4. all money and other property are properly accounted for, properly reported and adequately safeguarded; and
5. the operations of the office conform to prescribed procedures.



# Sampling

- Samples are selected according to your informed assessment of number of samples required to yield reasonably reliable result given the type of population and audit objective.
- Sampling may be carried out:
  - Systematically (e.g., every  $n$ th item, beginning with number  $x$ )
  - Unsystematically (e.g., pulling files from a file cabinet with no selection criteria)
  - According to the auditor's judgment (e.g., picking large or unusual items from a computer report)

# Judgmental Sampling

- Advantages/disadvantages of non-statistical sampling:
  - Gives the auditor the flexibility to use professional judgment to select the items that most need testing
  - Can be designed to achieve cost-effective, reasonably reliable results
  - May lead to auditing too many, or too few, items
  - Depends on experience and insight of auditor for its effectiveness

# Gather audit evidence

- Inquiry
- Observation
- Inspection
- Vouching
- Tracing
- Re-perform
- Analytical procedures
- Confirmation

NOTE: see handout for a description and examples of gathering audit evidence.

We will not look at using the computer to gather evidence. That is another class. See the SmartSheet for assistance on this aspect of auditing.

### Ways to Gather Audit Evidence

Procedure	Description	Examples
Inquiry	Asking questions of auditee personnel and obtaining their oral or written responses. Produces indirect evidence, which by itself is rarely persuasive.	<ul style="list-style-type: none"> <li>• Circulate questions to senior executives asking them to identify “Top Ten” risks to county.</li> <li>• Ask the organization’s outside legal counsel to provide information about any litigation, claims, and/or assessments against the organization.</li> </ul>
Observation	Watching people, procedures, or processes. More persuasive than inquiry as auditor is obtaining direct evidence.	<ul style="list-style-type: none"> <li>• Tour the facility to gain a general understanding of day-to-day operations.</li> <li>• Observe with care which employees count the year-end physical inventory.</li> </ul>
Inspection	Studying and physically examining documents and records. Provides direct evidence of contents. Exam provides auditor with direct personal knowledge of the existence and physical condition.	<ul style="list-style-type: none"> <li>• Review commissioners court meeting minutes looking for authorization of significant events.</li> <li>• Inspect selected inventory items to determine their condition and salability.</li> </ul>
Vouching	Track information <i>backward</i> from one record to a prepared record or tangible resource. Performed to test validity of documented or recorded information.	<ul style="list-style-type: none"> <li>• Vouch sample of items from accounting records to warehouse to see the inventory items exist.</li> <li>• Vouch a sample of sales invoices to corresponding shipping documents to verify that the shipments occurred.</li> </ul>
Tracing	Track information <i>forward</i> from one record to a prepared record or tangible resource. Performed to test completeness of documented or recorded information.	<ul style="list-style-type: none"> <li>• Tracing test counts of inventory to inventory records to verify counts are properly included.</li> <li>• Tracing checks dated several days before and after year-end to accounting records to ensure checks were recorded in the proper year.</li> </ul>

# Evaluate evidence – ask four questions:

- **Is it sufficient?**
  - Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusion as the auditor.
- **Is it reliable?**
  - Reliable information is the best attainable information through the use of appropriate engagement techniques.
- **Is it relevant?**
  - Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement.
- **Is it useful?**
  - Useful information helps the organization meet its goals.

# Documentation / work papers

- Work papers, by definition, should contain the work done during the engagement. That includes virtually everything committed to paper or entered into a computer, from initial plans through the final report – graphics and photos included – and other physical or electronic documents.
- What is the best test of your work papers? They should document the audit's objectives and methods so thoroughly that a new auditor added to the project at any point could fully comprehend the engagement from the work papers and bring the audit to a successful conclusion.

# Administrative Files

- Includes:
  - Calendar of past audits
  - Master file of blank audit forms
  - Current audit calendar showing assigned audit dates
  - Names of prior audit schedules prepared



# Permanent Files

- Accumulated data that does not change between audit periods
- Data that is related to this particular auditee
- The permanent file serves four primary purposes:
  - To refresh your memory concerning auditee history.
  - To serve as audit summary for successor auditors when rotation occurs.
  - To preserve work papers on items showing few or no changes over time.
  - To serve as evidence of your knowledge of the auditee. Knowledge allows the auditor to do an audit that meets auditing standards.

# Permanent files (continued)

- Office Overview – describes:
  - Statutory and non-statutory office functions
  - Receipt and disbursement descriptions trace funds from receipt to disbursement
  - Overview shows amounts collected and disbursed to other fee officers, County, State or other entities.
- Personnel and Office Organization – describes:
  - Organization chart w/position titles
  - Hierarchy of responsibility, accountability and authority
  - Matches employee names with position within the organizational structure

# The New Normal

Gary Varvel  
THE ADAMANT'S GUY  
©2008-COYNE.COM

WE NEED TO MOVE  
BACK IN WITH YOUR  
PARENTS.



garyvarvel.com

# Permanent files

- **Contracts** - copies of all auditee office contracts
- **Statutes** - copies of the enabling statutes and association affiliations
- **Audit Programs** - copies of audit programs used
- **Systems Documentation** - sample forms and system documentation
- **Audit Log** - Summary of previous audits
- **Audit Reports** - Copies of issued audit reports and responses



# So – Let's Review Statutory Auditing



# Think before any audit is started

- **Your role is to:**
  - be independent
  - gather knowledge and information
  - report the results of findings, analyses and recommendations
- **Understand the audit universe:**
  - statutory and mandatory audits
  - non-statutory audits
- **Establish the audit plan for the year:**
  - determine available resources and assignments
  - update the risk assessment
  - prepare analytical review of each auditee

# Audit Universe

- Who Statutory Offices
- What Receipts, Disbursements, Controls, Fixed Assets
- When Monthly, Quarterly, Annually
- How Audit Plan, Audit Program, Testing, Notification of Findings



# Now – Do the Audit

- Determine Audit Objectives
- Prepare Preliminary Review
  - Understand office
  - Review prior audits
  - Interview office holder
- Perform the Field Work
  - Review internal controls
  - Develop audit program
  - Perform audit program steps
  - Identify and evaluate findings
  - Perform additional audit procedures

# Complete the Audit

- **Perform Substantive Tests:**
  - Account balances are valid and proper
  - Transactions are valid and proper
  - Receipts and disbursements in accounts are valid and properly classified
- **Reach Conclusions:**
  - Keep conclusions simple and to the point
  - Logically organize the evidence
  - Present the basis for the conclusion

# Elements of a finding

- Auditor's focus – risks, negative events and issues to be fixed
- For each finding, ask these questions:
  - What is the current state of affairs? (the “condition”)
  - What should be the current state of affairs? (the “criteria”)
  - What has caused the current state of affairs? (the “cause”)
  - Why is the current state of affairs undesirable? (the “effect”)
  - What should be done to correct the current state of affairs? (the “recommendation”)

## Prepare the Audit Report

- Review reportable condition point sheets
- Write preliminary audit report
- Hold an exit conference and present preliminary audit report
- Request acknowledgement letter from auditee
- Issue audit report signed by county auditor

# Wrap up the audit

- Closure
  - Request audit effectiveness questionnaire from auditee to rate audit staff (see handout)
  - File cleanup
  - Final review
  - Filing work papers

# Audit Resources

- TACA Handbook for the County Auditor in Texas
  - Available on SmartSheet for all County Auditor offices
- Chapter 8 – Auditing
  - Audit Statutes and Responsibilities
  - Audit Authority
  - Audit and Approval of Claims
- Chapter 9 – Sample Audit Programs
  - Over 200 audit programs for different offices
  - Most are in Word
  - Easily adaptable to your county


# Ch. 9 Sample Audit Programs

- Accounts Payable
- Child Protective Services
- Collection Improvement
- Community Supervision
- Constable Offices
- Continuous Auditing
- Control Self Assessment
- County Attorney
- County Clerk
- District Attorney
- District Clerk
- Engineering
- Fixed Assets
- Fleet
- Fraud Risk
- GASB Audit
- Grants
- Human Resources



# Ch. 9 Sample Audit Programs

- Indigent Defense
- Information Technology
- Internal Audit Programs
- Internal Controls
- Justice of the Peace
- Juvenile Probation
- Parks and Recreation
- Payroll
- Purchasing
- Risk Assessment
- Road and Bridge
- Security
- Sheriffs Office
- Social Services
- Tax Assessor-Collector
- Treasurer
- Unclaimed Property



# The End

If time available,  
any questions?

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