

Managing MSUE County Finances and County Audits

Jane Goodrich, Fiscal Manager MSUE
Lynn R. Harvey, Associate Director MSUE
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Audits

Audits are a means of assuring that accountability is met in use of funds. Two types of audits: ***financial and performance***. A ***financial audit*** attempts to assess whether financial activity of the department, entity or unit was properly accounted for within the accounting system. Were receipts issued when money was collected? Was the financial transaction properly recorded or posted to the appropriate journal and ledger? Did the unit reconcile deposits with bank statements and internal accounts? In other words, does the accounting unit have an audit trail (paper trail)? Does the unit have in place appropriate internal controls? An auditor does not review each and every transaction or piece of accounting paper but rather examines a sample of financial transactions for the year. If a receipt is not issued for example, the transaction does not enter the accounting system thus cannot be tracked with an audit. A ***performance audit*** is often required of units or agencies utilizing federal funds in selected cases. A performance audit not only examines whether monies are properly recorded and accounted for by the accounting system (financial audit) but addresses whether the appropriated monies were appropriately spent on the appropriate activity. Whether a grant or funding allocation is subject to a performance audit is determined at the time monies are awarded. A recipient would be advised prior to the release of the monies that a performance audit would be required either at the end of the contract or mid-contract.

Audit Frequency?

While state law requires every sub-state unit of government to submit an annual financial audit to the Michigan Department of Treasury (exception is units with population less than 2,500, then every two years submission is required), MSU will conduct an audit of each county extension office once every five years on a rotating basis (15-18 counties per year). However, since county extension offices are part of the county's general fund, the extension office may be included in the county's annual audit. County auditors do not visit each and every county department each year but rotate their office financial transaction sample.

What can you expect? Auditors will review your financial management.

- A. Review of expenditures and financial reports
 - Write receipts for all monies received. Keep all voided receipts along with other receipts. Receipts should be written in ink, so it is apparent if anything changed. If no money (cash or check) is received, no receipt is written.
 - Receipts add up to bank deposit
 - Amount of money in the bank account equals the amount on the bank statement

- Deposits are to be made every week (or every 2 weeks if less than \$200). Do not deposit into a night depository, as MSU wants to see the stamped receipt. As you receive checks, restrictively endorse them; don't want until the deposit is being prepared.
 - Reconcile bank account each month and the CED reviews the reconciliation (s/he initials and dates the statement. Along with reviewing the bank statement, also review (plus initial and date) Quicken reconciliation page/s, if that's the financial system in use.
 - What is the check approval process in the office? Remember, the person approving the expenditure should not be the person writing the check. Is there supporting documentation for each check written?
 - Petty cash is for business only. Do not mix business with personal-type expenditures. Each transaction should have documentation, just as if a check were being written. An example would be an employee "buying" a stamp which was paid with office funds, or using the petty cash to purchase flowers (see MSU's Flower Purchase Guidelines, MSU Manual of Business Procedures Section 48). <http://ctrl.msu.edu/mbp/mbp48.htm>
 - Be clear to all staff as to who can approve expenditures. Other than the CED, no other single person can approve payment to themselves.
- B. No payroll may be paid from the MSU county checking accounts. There are too many regulations concerning reporting to allow this.
- C. Grant dollars may also not be accepted into the MSU county checking accounts. Because it is often difficult to discern the original source of funds, and each source of funds has its own reporting systems required, all grant dollars should flow through either the County entity or MSU.
- D. Internal control review
- Separation of duties. The person accepting money and writing the receipts is different from the person depositing money. A third person oversees reconciliation of accounts. In some counties there are not enough people to separate these duties; a plan will have been established to do the best possible.
 - Inventory of equipment. Items must either be on the MSU or County inventory list. For MSU the limit is \$5,000, but as a matter of sound policy, county extension offices should maintain an inventory of computers and peripherals. Computers purchased with public funds remain in the public domain and do not represent personal property, thus upon retirement or separation from the university must be left with the office. Depending on the source of funds used to purchase the "equipment", different restrictions may apply as to the disposition of capital equipment at the conclusion of a grant.
 - Nature of expenditure, authorization, or status of sales tax will be audited.
 - Remittance of sales tax should be done at least semi-annually; quarterly is preferred.

Common Audit Recommendations

- Original voided receipt should be kept with the voided copy.
- Original voided check should be kept with the bank statement
- Deposits need to be made in a timely manner
- Checks should be restrictively endorsed upon receipt.
- Bank reconciliations must be completed in a timely manner (every month).
- Must use numbered receipts: the Quicken software accounting system used by some extension offices does not provide numbered receipts, however Quick Books software does comply with audit requirements for numbered receipts.
- Separation of duties.
- Petty Cash receipts and cash should always equal the starting balance in the fund. **No personal IOUs.**
- Sign-off on bank reconciliation
- Expenditures should be consistent MSU Business and Policy and Procedures Manual

Embezzlement

The State Police division that investigates embezzlement operates on the MOM principle – **m**ean, **o**pportunity and **m**otive. If appropriate internal controls are in place, the opportunities for embezzlement by employees are diminished but not impossible. Remember, if a financial transaction is not recorded, such as failing to issue a receipt, the transaction does not enter the system therefore cannot be captured by an audit. Substituting checks for cash is a common embezzlement scheme both in the private as well as public sector. County extension directors are charged with overall responsibility for the financial integrity of the office therefore become knowledgeable of the accounting system is a prerequisite for providing oversight. Additionally, changes in employee behavior such as acquisition or large purchases not consistent with past financial expenditure habits, unwilling to take time-off, or unwillingness to cross-train a colleague to serve as backup, can serve as early warning signs that something may be amiss related to office finances.

What to do if you suspect financial irregularities? The CED should first review the accounts, records, and transactions in question and attempt ascertain whether the concern is valid. This may require a meeting between the CED and person handling the finances being questioned. If the financial irregularities involve a 4-H group, 4-H Council or related group/organization affiliated with MSUE, an internal review instituted by the CED with perhaps involvement of another person knowledgeable of accounting to determine if there is cause for concern. If the informal review reinforces financial accounting concerns or financial mismanagement, the CED should contact the Regional Extension Director. Failing to resolve locally, the CED and RD should contact Associate Director for MSUE Operations and jointly develop an acceptable strategy for resolving the issue. If the decision is made to involve MSU Internal Audit especially if the issue in question involves MSU monies, the Associate Director for Operations will make the contact with Internal Audit and involve the CED and RD at the appropriate time. Involving MSU Internal Audit is not without cost since MSU will attempt to recapture costs of the internal review and audit. Therefore it may be appropriate for local extension office or group to engage a local auditor to conduct the audit especially if the financial issue in question involves the 4-H

Council or a 4-H Club. MSU Internal Audit is reluctant to conduct audits for 4-H groups. Counties are advised to contract with a local auditor. The issue of who pays for an audit needs to be resolved before engaging an auditor.

If an audit and/or investigation determine that embezzlement or financial irregularities did occur, the decision to prosecute will be made by MSUE Director's Office in consultation with Internal Audit, MSU Legal Counsel and County Prosecutor. The CED and RD should make every reasonable effort to resolve the issue with prosecution being the last resort.

Self-Audit Program for MSU Extension Offices

Each auditor who visits an office will have an individual take on what are the most important points in an audit, and will place differing emphases on different components. However, the underlying principles assessed will be the same no matter who does an audit. An audit will assess the effectiveness and efficiency of the financial operation and adequacy of your internal control structure. Compliance to prescribed procedures and regulations will be reviewed. Revenue and expenditures will be tested and other auditing procedures will be performed as deemed necessary;

How best to prepare for an audit? Your county extension office has already undergone at least one University audit, and many have been audited multiple times. What follows does not guarantee that the office will do well on the audit. The questions are organized so that you can take some time to look at your office through the eyes of an auditor prior to the auditor's arrival.

First Review of Bank Statements

1. Look at the bank statement. Has the county extension director (CED) opened the envelope, reviewed the statement and cancelled checks, if any? Has the CED initialed and dated the bank statement?
2. Has there been a deposit each week of every month? Or, if less than \$200, at least every two weeks?

Review of Receipt Book

3. Add up the receipts from the receipt book to see if amounts match the corresponding bank deposits. Determine reasons for differences, if any. Is there a pattern of overages or shortages that suggests less than good handling of money? Are both copies of a voiced receipt stapled together in the receipt book?
4. Were there events that took in cash? If so, is there evidence of a "witnessed cash count" by individuals other than the person making the deposit? Does the witnessed cash count equal the amount of the deposit and does the deposit show up on the bank statement? If not a witnessed cash count, were the various roster or list receipts regularly receipted, like for agents collecting money at evening meetings or the bulletin log on the counter?

Second Review of Bank Statement

5. Compare the bank deposit amounts that show up on the bank statement for each month. Determine reasons for differences, if any. There are extremely few, if any, legitimate reasons for variance here.

6. Has the bank account been reconciled each month? This is usually found on the reverse side of the monthly statement. Can you compare the reconciled bank account balance to a figure in the check register? It should be an obvious match. If Quicken or Microsoft Money is used, have the outstanding items page and the reconciliation page been printed out so they can be compared to the bank statement? Has the CED initialed or signed and dated that she/he has reviewed the reconciled bank statement?
7. Have there been any cash withdrawals from the bank account? If so, is there documentation as to the purpose so that the legitimacy of the withdrawal may be determined? Are there any other transactions in the bank account that need further explanation?

Review of Expenditures

8. Review the expenditures and how they were approved. Are there expenditures that seem out of place or inappropriate? Are all expenditures for educational programs and activities or in direct support of educational programs and activities? Are payments being made on a timely basis? If cancelled checks are returned, review both sides of checks to make sure the people you have determined to be legitimate recipients of the checks are in fact the people who deposited the checks. Verify that invoices paid and expense receipts are stamped "Paid" to prevent them from being paid twice.
9. Review whether or not Michigan Sales Tax was paid at least twice per year, if not quarterly.

Petty Cash Fund Review

10. Verify all petty cash funds, to see if the person who has signed out the fund is still the appropriate person to handle the fund. Verify that cash plus receipts adds up to the total amount of the fund.
11. Are the records maintained in an up to date and orderly way? If there provision for a five-year retention of records?
12. Quicken, or Quickbooks, or Microsoft Money are used in most MSU Extension offices to keep the records orderly, and are primarily used to keep the money in sub-accounts separate. The main thing that an auditor will be examining in one of these programs is that they are kept current and reflect all of the transactions that show up on the bank account. The record of the funds kept in the sub-accounts must correspond exactly, or reconcile easily to amount of funds in the bank account.

RETENTION OF FISCAL DOCUMENTS

Checking account documents

Internal Audit has said informally to keep records eighteen months past the end of the fiscal year in which you were audited last. This may not be very helpful, as in reality we may need to keep records for a longer period of time. Felony theft has a six year statute of limitations, so we should keep records for six complete fiscal years. Holding any records beyond six years is a waste of space.

Helpful hint: Place a note on the outside of the banker box or other container holding the records with the contents and a destroy date. This saves having to rethink which boxes can be destroyed at any given time.

Helpful hint: Sensitive information (bank account numbers or names with social security numbers) should be shredded, not simply tossed in a dumpster.

Helpful hint: Retention of documents begins with the end of a particular year. For example, when retaining work done on a grant, the retention period begins from the end date of the grant.

The County should have the originals of everything, so nothing has to be saved in the Extension office. However, it is often helpful to have a history (up to 10 years) of the county provided budgetary information.

Any detailed information concerning dollars in a Trust and Agency account may be helpful to keep up to 6 years past the end use of the funds. Sometimes records of the purpose of such monies is lost at the county level and we would then rely on records within the Extension office to help determine where the funds belong.

RETENTION OF PERSONNEL-RELATED PAY DOCUMENTS

The IRS requires organizations that pay people to withhold income tax and pay Social Security tax. These records must be retained for seven years.

We don't pay any payroll out of the MSUE county checking accounts, so this is not an issue. See "Retention of Fiscal Documents" for details.

CONFIDENTIALITY OF PERSONNEL AND FISCAL INFORMATION / FOIA

Under the Freedom of Information Act (FOIA), anyone can ask and get virtually any information they want, as long as the requesting person covers the cost of getting copies, and request is actually able to be filled. There are some limitations, and all requests should go through the MSUE/CANR Personnel Director, Jim Artabasy. The request must come in writing, either written correspondence or via e-mail. An overview of the limitations follows.

Personnel:

An individual's personnel file is not available to the public, but it is accessible for the individual. Volunteer selection materials, including criminal history check, are not available, as they constitute an evaluation, and are excluded from FOIA.

Fiscal:

This is more straight-forward. Personnel salaries are a matter of public record, and can be revealed, unlike personnel files.. We can share information, but we would like to be able to give the total picture. Why a person/organization is interested in data might determine how the information is delivered. The Director or Associate Director or Regional Director might want to present the information in person, in order to answer particular concerns not clearly answered by the actual data asked for.

Because all counties rely on their county commissioners for budgets, we want to provide almost everything they ask.. They have access to personnel records of county staff through their own channels. MSU personnel files do not need to be handed over, but may be summarized.

One sensitive issue is the MSU checking account, especially in times of budget downturns. What may occur is the CED is able to buy computers, printers, or other office materials, and thus is perceived to have a "slush fund." The commissioners would like to be able to control that fund. While we share information, we also would share the Program Income administrative rule found in Chapter Three of the USDA administrative manual on the financials, and in 7 CFR 3015, which can be summarized as all program income is to be reinvested in an authorized extension program. We presume that these funds keep funding programs in respective county.