ELECTED COUNTY AUDITORS GUIDELINES

Pennsylvania State Association of County Auditors

Please note that every county in the Commonwealth of Pennsylvania varies in how they govern and all the auditing principles described may not apply to the process in each county.

FALL 2022

PSACA

I. Audit and Accounting Information

A. Elected Auditors per the County Code

Three auditors shall be elected every four years, beginning in the calendar year 1955 and every fourth year after.

The President Judge of the Court of Common Please is required to fill any vacancies that occur between terms of office. The appointed auditor will serve the balance of the unexpired term.

Elected County Auditors shall assemble at the county seat on the first Monday of January for an organizational meeting. The Annual Organization Meeting must be advertised as to the time and place in accordance with the Sunshine Law. At this meeting, the organizational duties of the elected County Auditors will be determined.

The Annual Audit Report is to be completed by May 1^{st}, and filed with the PA Department of Community and Economic Development (DCED).

Concise summary statements shall be published within ten days from the date of filing of each fiscal year. The reports must contain a balance sheet, revenue and expenditure report summary and a presentation of the legal debt limit. The President Judge of the Court of Common Pleas may grant an extension.

Elected County Auditors will need to prepare and examine the financial and compliance information in order to perform a proper audit. The following steps will aid the auditor in completing the audit process:

1. An audit plan or work program with a flow chart to determine which auditor will perform specific duties of the audit.
2. Work papers and minutes of meetings.
3. Verification of all internal control processes.
4. Bank accounts located, confirmed and reconciled.
5. Verifications of petty cash.
6. Inventory records and insurance policy examination.
7. Management letter and recommendations to county officials.

B. Major Aspects of a Good Audit

Planning – have a written plan for the process, including which funds, departments and records are to be audited. Auditors must have a clear idea of the scope of work.

Study of Internal Controls – Determine the internal checks and balances and ways funds are handled in each office. Knowing the internal controls will assist in verifying that financial activities are conducted in the appropriate manner.

Gathering and Examining Material – Audit trails must be produced to assure that proper accounting and financial procedures are followed. All assets, liabilities, fund balances, revenues and expenditures must be verified.

C. Types of Audits

Financial Audit/Compliance Audit – this type of audit is an examination leading to the expression of an opinion on the fairness of the entity's basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP); compliance with legal and contractual provisions; and, assure acceptable governmental organizational performance and effective stewardship.

Performance Audit – this audit assesses the entity's program effectiveness by determining if the program's objectives are being attained.

D. Objectives of the Audit

The major objective of an audit is to analyze the books, records and transactions of the county to insure the financial statements fairly and accurately present the financial position of the county. It verifies that funds are properly handled and all transactions have been made in accordance with good practices and legal requirements.

An important consideration is to consider the time period covered by the report. The audit statement required by DCED includes all transactions for the calendar year January through December. Elected auditors are the responsible persons who must submit the "Annual Audit and Financial Report" to DECD.

E. Accounting Basics

Assets – include what the county owns and any money owed to the county (which is a receivable). County's assets include checking accounts, savings accounts, petty cash, fixed assets, inventory and un-deposited funds.

Liabilities – what the county owes to others, including money for unpaid bills, loans, sales or payroll taxes.

Fund Equity – the equity equals the county's assets minus liabilities and defines the county's net worth.

F. Accounting and Reporting Responsibilities
Accounting is a systematic method through which financial transactions are analyzed, classified, recorded and posted. Trial balance summaries are prepared in a double entry system, to see whether debits equal credits and thus whether the system is in balance.

The following rules apply:

- to increase an asset, you debit it.
- to decrease an asset, you credit it.
- to increase a liability, you credit it.
- to decrease a liability, you debit it.
- to increase a revenue, you credit it.
- to decrease a revenue, you debit it.
- to increase and expenditure, you debit it.
- to decrease an expense, you credit it.

A ledger exists for every account: assets, liabilities, equity, revenue or expenditures. Vouchers provide supporting documentation, including original evidence of a financial transaction. Each voucher should record the date, time, amount and description of the transaction.

II. Fund Accounting System

A. Governmental accounting systems should be organized and operated on a "fund" basis. The funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Governmental Funds – the general (or operating fund) fund is where most of the governmental operations take place. General government, human services, public safety, public works, parks, recreation and debt service are transacted within the general fund. The state Liquid Fuels fund is used to record revenues received and expenditures disbursed based on the rules prescribed by PennDOT Publication Number 9. These are restricted monies that can't be used for any other purpose.

Proprietary Funds – enterprise or proprietary funds (county nursing homes or animal shelters) are self-supporting enterprises. The user fees must cover operating costs of the funds. These fees must also include upgrades of capital infrastructure to assure the county fixed assets are properly maintained and managed. This includes debt services and depreciation expenses. Special revenue funds exist for each special tax assessment project or a set of projects; capital project funds are established to monitor and maintain the accounts related to long term capital projects; debt service funds record any debt incurred by the county, including bond issues.

Fiduciary Funds – fiduciary or trust funds require a separate fund for each donation or contribution.

III. Audit Checklist

1. Copies of all tax levies approved by the county's legislative body
2. Copy of the official budget or amended budget
3. Official minute book
4. Copies of all resolutions and legislative enactments
5. Copy of the chart of accounts
6. Monthly bank reconciliations for each bank account
7. Cancelled checks and bank statements for each account
8. List of depositors with bank account numbers, names of persons with access to accounts and signature cards
9. A record of investment transactions for each fund for each year
10. Insurance records – names, types of coverage, date of coverage, policy costs
11. Reconciliation of salary amounts and related items (payroll taxes, deductions, retirement payout amounts)
12. Records of payment of wage taxes to federal, state and local entities
13. Employee timesheets, contracts, salaries, wages, leave schedules and overtime provisions
14. Details of any new borrowing, bond issues or long term debt with debt repayment schedules
15. All canceled checks and interest coupons
16. Copies of lease and contractual agreements
17. Inventory of fixed assets owned
18. Copies of legal publications (ads, ordinances, etc.)
19. Summary of any litigation, whether prior, current, ongoing or imminent
20. Any tax anticipation note activity with interest charges and repayment schedule
21. Paid invoices, purchase orders, vouchers and receiving reports
22. All petty cash fund transactions, supported by receipts
23. Copies of all grants, related funding schedules and contracts
24. Treasurer's bond documentations
25. Reconciliation of payments made to tax collectors
26. Bidding documents
27. Use of a solicitor
28. Surcharge recommendations

Elected auditors are not required to obtain a Certified Public Accountant (CPA) designation. County auditors are required to adhere to the Government Accounting

Standards Board (GASB), which established standards for activities and transactions of state and local governmental entities.

Auditors have responsibilities to recommend improvements in accounting procedures, internal control devices and related fiscal matters. Auditors settle the various financial accounts within the county.

The County Code provides that auditors may employ an attorney to assist in settling disagreements. Furthermore, the Auditors have the power to surcharge individual officers of the county for any balances found due. Auditors have the power of subpoena to compel the attendance of witnesses and the production of necessary evidence.

Recommendations and related findings should include:

- An explanation of the problem that exists;
- The reason that the existing condition(s) has a negative effect on the operation of the county;
- The reason for the condition existing; and,
- A discussion of the solutions reflecting good business practice, laws and regulations.

Recommendations and findings should be submitted in a separate management letter accompanying the Annual Audit and Financial Report.

IV. Performing Audits

A. General Audits

The primary objective is to determine if the Annual Audit and Financial Report, Commonwealth of Pennsylvania Department of Community and Economic Development Form (DCED-CLGS-20) is fairly stated and whether the county has complied with applicable laws and regulations.

Auditors should understand the basic operations of the county, the accounting system, the internal controls, and the number and type of funds in order to assess the capacity of their management.

Auditors should review prior years' financial statements, review minutes and contracts and work closely with county personnel to conduct the audits.

B. Payroll Audits

All wages, salaries, withholding and benefits must be examined and verified for accuracy. All must also be pre-authorized by the appropriate county officials. Disbursements are made only for work that is authorized and performed. Timesheets must be verified to assure the work performed matches wages paid. Leave statements should also be verified.

Pay scale or wages are approved by the governing body or by formal contracts. For those covered by a union, the pay rate and job descriptions should be identified within the contracts or civil service regulations. Also check the costs against the original budgets.

Compare prior payrolls with current ones and check the number of personnel. Quarterly payrolls need to be reconciled with IRS Form 941; state, local taxes and unemployment taxes should be also compared.

If employees pay their own health insurance, verify payment has been properly recorded. Compare accruals for compensated absences (sick and vacation leave). Check for employees that have more than one classification and ensure proper pay rates are recorded.

Compare total net payroll with the deposit to the payroll bank account or IRS to the General Fund Payroll Fund disbursing account. Determine is duplicate names or addresses appear and why. Look for unusual rates or overtime use. Look for factors that may indicate ghost employees. Verify that all employees have completed a W4.

Professional consultants (attorneys, engineers, accountants, computer programmers, physicians, etc.) that provide more than $600 worth of services per year must receive Form 1099. Sample these services to ensure they are receiving the form.

C. Investments

Determine that the county owns the investments and has physical evidence of them. Identify any restrictions, pledges or liens and that income is properly recorded and received.

D. Debt Service

Government may make short and long term borrowings. Short term borrowings may include tax revenue anticipation notes which are collateralized by the collection of receipts of taxes, sales of bonds and grants.

Long term debt is generally used to finance construction or other major projects. It includes general obligations bonds, special or limited obligation bonds and capital leases or other obligations having a long term repayment schedule. They are backed by the full faith and credit of the issuing government entity. Repayments of interest and principal are made through sinking funds.

Prepare an analysis of notes or other long term debit, including a description, principal balance, any changes, and interest. Trace to the respective fund and to the minutes. Examine all supporting documentation, such as note agreements or correspondence. If the interest in paid by redeeming bond coupons, the auditors must check the coupons with the outstanding bonds and verify that the coupons are cancelled by the bank or inspect the bank's certificate of deposit.

E. Sinking Funds

Sinking funds are created to provide for the regular payment of interest and the retirement of bonds or notes as they come due. A separate sinking fund is created for each bond issue.

Section 8221 of the Debt Act provides for the creation of sinking funds and requires they be deposited and maintained with a bank/trust located and lawfully conducting a banking/trust business in PA. In each county, there shall be a sinking fund commission, composed of the three commissioners, the controller or auditors and treasurer. The sinking fund is seen as an accounting transaction through which funds are transferred before they are actually used to pay a portion of a bond issue.

Sources of sinking fund assets include taxes, cash for sale of investments, interest on deposits or securities, or transfer from other funds. The uses include interest expense, bond retirement, cash paid for investments and transfers to other funds.

Auditors should audit cash in each fund for the designated bond issue; review revenues, receivables and receipts from taxes earmarked for debt service; audit investments; review transfers from the general fund; and, check against the debt service.

F. Capital Projects

The capital projects fund is used to record the acquisition of major facilities through purchase or construction. The projects can be financed through debt proceeds, taxes, and grants or transfer from other funds.

If the project is funded by way of debt proceeds, they are included under other financing sources in the revenues section of the audit report. The debt liability is accounted for separately in the general long term debt account group.

If the project is funded by grants from other governments, the grants are recognized as revenues to the capital projects fund. Initially they are recorded as liabilities; upon completion, capital assets are recorded in the fixed asset account group.

Auditors should obtain evidence that the capital expenditures comply with budgetary, legal, grantor and contractual requirements. Review grant agreements, review cash, investments, receivables, payables, transfers, revenues, expenditures and consider physically inspecting the project to verify existence.

G. Capital Reserve

The County Code (Section 512) authorizes establishing capital reserve funds to prepare for the eventual expenditure of large sums of money for specific projects or equipment. The money should be maintained in interest bearing securities.

H. Petty Cash

Identify all petty cash funds, locations, custodians and purpose. Count the cash in the presence of the custodian. List coin and currency; examine expenditure vouchers to verify they match the deductions. Trace the fund balance to the balance in the general ledger.

I. Tax Collector Audits

Check the reports submitted for the collection of real estate, occupation and per capita taxes. This includes taxpayers' names, amount of taxes collected, discounts and penalties. Review periodic reports showing the delinquent taxes; verify interest and penalties.

J. State Liquid Fuels

All counties must annually submit to the Department of Transportation (PennDOT) a summary of state fund expenditures on forms provided by the state agency. The report shows amounts expended in both construction and non-construction costs, including ending balance of the previous year, state allotment received, amount expended and the balance.

State funds allotted under the Liquid Fuels Act may not be commingled with any other local funds. A separate checking account must be established for deposits and payments; however, PennDOT permits counties to expend money for highway purposed for the general fund and to reimburse the general fund by transfer from the liquid fuels fund. Transactions must be identified as such and costs must be allowable.

Auditors should review the funds for cash, investments, payables, transfers, revenues and expenditures; grant agreements should be read for contract terms.

K. Hotel Occupancy Tax

Act 18 of 1997, the Hotel Occupancy Tax, is included in receipts of the county treasurer. Auditors should review all payments made by the covered establishments, including the county share and exemptions.

L. District Justices

The District Justices have judicial duties in connection with a variety of offenses and violations of local and state laws, as well as criminal cases. They impose fines, penalties and forfeitures and collect costs. Fines belonging to the county must be reported and turned over to the county monthly (as are fines reported and paid to the state). Auditors must audit the accounts of every district justice by examining the dockets to identify persons fined and the costs to track those amounts back to the county.

V. Miscellaneous

When any of the offices subject to audit become vacant during the year, the auditors must audit the accounts of the former incumbents. The recommended practice is to review and settle the accounts. If balances are due to the county, action to collect from the official or his bonding company can't proceed until the amounts due are identified by the auditors.

In addition to requiring a report to the PA Department of Community and Economic Development, the County Code requires auditors to publish a concise financial statement. The statement must include the current resources and liabilities of the county at the end of the fiscal year. It will also include the gross liability and net debt, the amount of the assessed valuations, the assets of the county with the character and value thereof, the date of the last maturity of the respective forms of funded debt and the assets in each sinking funds. (Section 172, Article 17).