

MANAGEMENT SUMMIT

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Member of the Firm

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Guidance You
Can Count On.



Kevin Stouffer, CPA

- Member of the Firm
- Joined SEK in 2004
- 21 years of experience
- Graduated from Shippensburg University cum laude with a bachelor's degree in Business Administration
- Specializes in governmental audits and currently serves as Member-in-Charge of approximately 60 local government audits, including six Conservation Districts



Steps to Take – Preparing for Your Audit



It's a Year-Round Process...



- Keep a list of changes throughout the year
 - Processes
 - Procedures (internal controls)
 - Employee changes
 - Reach out to your auditor as things come up (don't wait until the audit)
 - Complex / unusual transactions
 - Significant activities
 - Operational changes
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It's a Year-Round Process...



- Timely reconciliations
 - Fixed asset activity
 - Debt issuances – if any
 - Journal entries – approvals and support
 - Year-end accruals
 - Supporting documentation for financial activity
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Items to Gather



- Updated Internal Control Narrative
 - Fixed Asset Listing (typically manual spreadsheets)
 - Debt activity for the year (issuances and payments); if any
 - Pension and OPEB Reports from Actuary (if applicable)
 - Lease and SBITA information; if any
 - Compensated Absences summary
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Cash and Investment Discussions



- FDIC Coverage - \$250,000 of demand and \$250,000 of time and savings account, per financial institution.
 - Act 72 – additional insurance that PA financial institutions are required to maintain for local governments.
 - Suggest to maintain reserves of at least 2 months of operations (sometimes more may be justified depending on the State budget and related funding).
 - Typically, investments have a higher return on investment for long-term, but recently, we have seen short-term rates be comparable.
 - Must consider likelihood of needing funds if investing long-term.
 - Other options included PLGIT, which have a variety of investment options available.
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Liability Reconciliations to Prepare



- Accounts Payable listing
 - Retainage Payable listing; if any significant on-going projects
 - Accrued Payroll summary
 - Accrued Benefits summary
 - Payroll Withholding summary
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Fund Balance Reconciliations to Prepare



- Reconciliation of Fund Balance to the previous year financial statements
 - Reconciliation of classification of Fund Balance
 - Restricted Fund Balance – restricted by a third party
 - Committed Fund Balance – board action taken to commit fund balance
 - Assigned Fund Balance – authority given by the board to management and includes budget deficit for the next fiscal year
 - Unassigned Fund Balance – residual fund balance
 - Suggest reviewing Fund Balance Policy on an annual basis to ensure compliance
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Various Items to Have Available



- Subsequent Receipts listing for 90 days after year-end
 - Subsequent Payment listing for 90 days after year-end
 - Current Year Budget (original and final)
 - Subsequent year Budget
 - 941's or other Payroll Reports
 - Explanations for variance analysis
 - If annual campaigns are significant, provide details (along with any other fundraising that may have occurred).
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Various Items to Have Available



- Summary of any threatened or pending litigation
 - Review of attorney's utilized during the year to send attorney letters
 - Updated agreements and contracts
 - Check number samples for Cash Disbursements and Payroll
 - Listing of all journal entries made for the fiscal year
 - Providing the 1099's that were filed
 - Form 1099 NEC – paid more than \$600 to any nonemployee for services provided during a year.
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Grants



- Summary of all Grant activity for the year
 - Receipts
 - Disbursements
 - Calculation of Receivable/Unearned
 - Summary of grant receipts not received within 60 days
 - Allowable uses and timeline for use of funds
 - Tracking activity
 - Read the grant contract
 - No double dipping!
 - Reporting requirements
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Federal Grants / Single Audit Reminders



- A single audit (Uniform Guidance) is required if an organization expends \$750,000 or more in federal funds in a fiscal year
 - All federal funds combined
 - Funds spent (based on your basis of accounting), not received
 - Suggest preparing a Schedule of Expenditure of Federal Awards if federal expenditures exceed \$ 500,000
 - Provide details of receipts and expenditures by grant
 - Federal Grants should be denoted by their Assistance Listing Number (previously known was Catalog of Federal Domestic Assistance).
 - ALN is a five-digit number assigned to the awarding document for all federal assistance award mechanisms, including federal grants.
 - Compliance testing
 - Internal control testing
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Footnote Items Needed



- Summary of Related Party/Joint Venture financial activity
 - Summary of Construction in Progress and any signed Commitments
 - Summary of any significant Subsequent Events
 - Debt issuances
 - Construction commitments signed subsequent to year-end
 - Details of Foundation, as applicable.
 - Typically, Foundations are formed under a 501(c)3 status to obtain additional grant funding.
 - Nature of relationship can vary between District and Foundation depending on how it is established and setup.
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Internal Controls and Segregation of Duties Considerations



Internal Controls



According to COSO (Committee of Sponsoring Organizations of the Treadway Commission), internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of specified objectives.

- Effectiveness and efficiency of operations
- Ensure reliable financial reporting
- Comply with laws and regulations

Internal Controls



Key concepts:

Internal control is a *process*. It is a means to an end, not an end in itself

Internal control is affected by *people*, not just policy manuals and forms

Internal control can be expected to provide only *reasonable assurance*, not absolute assurance

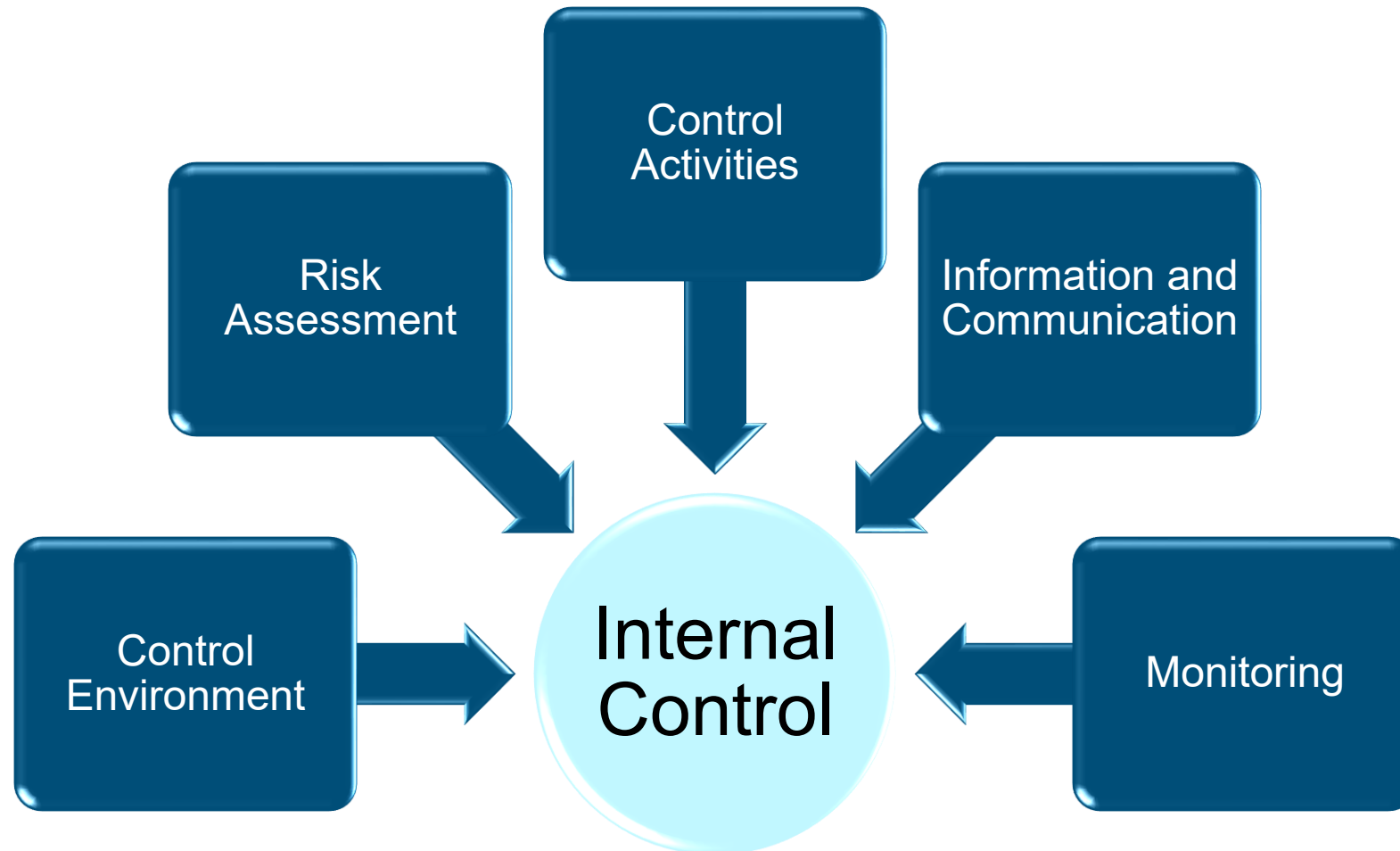
3 types of internal controls:

Preventive

Detective

Corrective

Internal Controls



Internal Controls



Policies and procedures that ensure management directives are carried out

- Top-level reviews
- Operating performance indicators/reviews
- Reconciliations
- Security of assets
- Segregation of duties

Internal Controls



- Cash Disbursements – what could go wrong?
 - Payments could be made to fictitious vendors
 - Disbursements could be made for the wrong amount
 - Duplicate payments could be made on an invoice
 - Disbursements could be recorded in the wrong period
-

Internal Controls



- Cash Disbursements – Examples
 - Segregation of duties – limiting the involvement that one person has in a process
 - Separate the duties of approving invoices for payment, opening the mail, issuing checks, signing checks, and reconciling the bank statement
 - Procurement Cards
 - Should have the same approval processes as regular cash disbursements
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Internal Controls



- Cash Disbursements – Suggestions
 - Invoices should be approved for payment by someone other than the individual who will enter into the accounting software/system
 - Mail should be opened by someone other than the individual who has the ability to create checks
 - All checks should be signed by more than one individual (not a stamp or preprinted)
 - Ideally, bank statements are reconciled by someone without other cash disbursement or cash receipts duties, or at a minimum, reviewed by someone independent of these functions
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Internal Controls



- Payroll – what could go wrong?
 - Payments could be made to fictitious employees
 - Employees could be paid the incorrect pay rate
 - Employees could be paid for hours not worked
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Internal Controls



- Payroll – Examples
 - Segregation of duties – limiting the involvement that one person has in a process
 - Employees are required to maintain time sheets, use of a time card, review/authorization of time worked by each employee, signing checks, and reconciling the bank statement
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Internal Controls



- Payroll – Suggestions
 - Have all pay rates be approved by the Board on an annual basis, at a minimum
 - Approval of time sheets/hours worked for each pay period, including all paid time off

Internal Controls



- Cash Receipts – what could go wrong?
 - Funds received could be credited to the wrong customer account
 - Cash could be stolen by an employee and not recorded
 - Amounts receivable may never be collected due to failure to follow-up on past due amounts
-

Internal Controls



- Cash Receipts – Examples
- Segregation of duties – limiting the involvement that one person has in a process
 - Separate the duties of handling cash and making the deposit (recommend a deposit log), entering the deposit into the accounting software/system, and reconciling the bank statement
 - Daily Cash Reports should show revenue by major category
 - The date of receipt and date of deposit should be included

Internal Controls



- Cash Receipts – Suggestions
 - When cash is received, a deposit slip or log, should be maintained by someone other than the individual that will enter and record.
 - Copy of the log/checks given to the individual to enter and record.
 - Create invoices for any amounts owed to the District.
 - Require receipts given to customers for all payments received.
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Fraud Detection Methods



FIG. 13 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

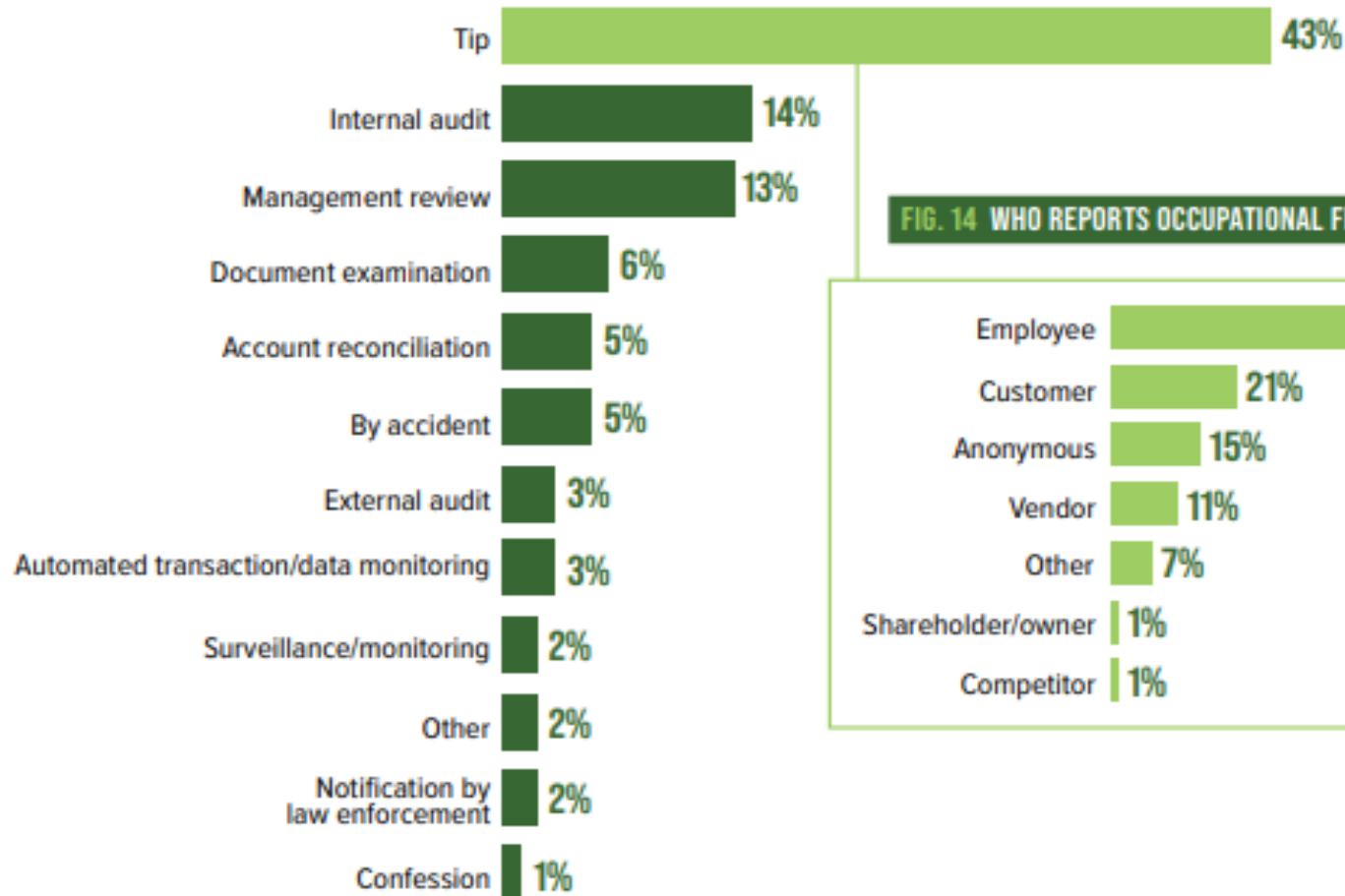
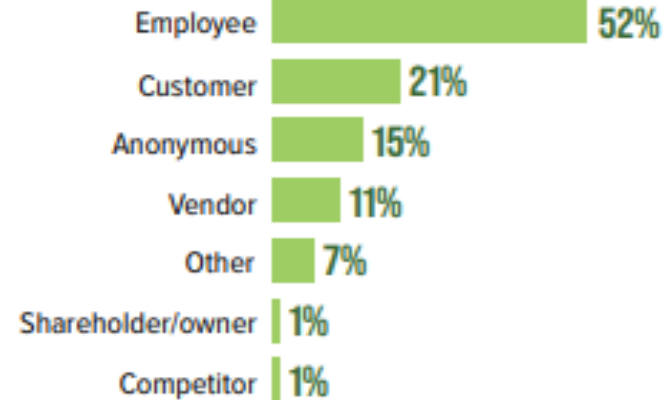


FIG. 14 WHO REPORTS OCCUPATIONAL FRAUD?



Basis of Accounting



Basis of Accounting



- Cash Basis
 - Record revenues when received
 - Record expenditures when paid
 - No recording of accounts receivable or accounts payable
 - Advantages
 - Closely reflects the cash position
 - Bookkeeping is easier
 - Disadvantage
 - Financial results in any given period may be distorted
 - Budgeting can be more difficult
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Basis of Accounting



- **Accrual Basis**
 - Record revenues when earned, regardless of when received
 - Offset is recording accounts receivable for amounts earned, but not yet received
 - Record expenditures when incurred, regardless of when paid
 - Offset is recording accounts payable for amounts incurred, but not yet paid
 - **Advantage**
 - More accurate representation of finances
 - Typically, easier to budget
 - **Disadvantage**
 - Additional bookkeeping
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Basis of Accounting



- Accrual Basis – Internal Reporting
 - Recording Accounts Receivable – all amounts owed, but not yet received as of year-end
 - Recording of Prepaid Expenses – all amounts paid in advance of year-end, but for the next fiscal year (insurance is a common example)
 - Recording Accounts Payable – all amounts incurred, but not yet paid as of year-end
 - Recording of Accrued Payroll – all amounts of payroll incurred before year-end, but not yet paid as of year-end
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Basis of Accounting



- Accrual Basis – External Reporting
 - Recording Capital Assets – historical cost of capital assets is included in the financial statements and depreciated over time
 - Typically, an appraisal company would need to perform an inventory to create a listing of all capital assets, if a listing with costs is not already maintained
 - Recording of Long-Term Debt – loans/borrowings balances are included in the financial statements
 - Includes Leases
 - Recording of Compensated Absences – amounts of accrued pay (vacation and/or sick that will be paid upon termination) included in the financial statements

Basis of Accounting



- Cash vs. Accrual Basis
 - If a Component Unit of the County, may not have a choice
 - Accrual
 - If a stand-alone entity (not a component unit), may have the choice between cash vs. accrual
 - Cash Basis Financial Statements – cheaper to audit
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Q&A

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