

ACCOUNTING, FINANCIAL REPORTING & INTERNAL CONTROL BEST PRACTICES

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Contents

This interactive workshop will go over the following topics:

1. Audit Standard Changes – Hosting Services
2. Internal Control Best Practices
3. Fraud: How To Deal With It When Discovered

An accountant is someone who knows the cost of everything and the value of nothing...

- Unknown

Audit Standard Changes

Hosting Services – Effective 9-1-18:

1. AICPA issued ET 1.295-143 Hosting Services (effective 9-1-18) says auditors can no longer be the sole host of a client's financial information system (i.e. capital asset/depreciation schedule, debt schedule, property tax schedule, GASB 68 worksheets, etc.)...
2. In other words, if your auditor continues to assist you with these schedules after this implementation date in a fashion permitted by the standards, the auditor must provide you with the schedules upon completion of the service.
3. More on this subject at the ICCTFOA conference...

Internal Control Best Practices

Controls & Measures Over Cash & Investments

1. Size of city impacts type of controls
2. Monthly review of all bank statements and reconciliations by someone who does not have access to the bank accounts
 - A. Used primarily by small to mid-sized cities with limited accounting staff, this review (and sign-off on the bank statements) is used to catch errors and other issues
 - B. By having the reviewer sign off, it shares responsibilities within the city rather than just having it on the clerk/treasurer/administrator
3. Use of an electronic check authorization tool such as Positive Pay.
4. Especially in smaller cities (with limited segregation of duties) ensure the following with finance personnel:
 - A. **Hire honest people.** Seems like a no-brainer, but people are hired all the time that come with obvious signs of financial problems/mismanagement issues.
 - B. **Ensure they are well paid.** These folks work with cash all day long so it's not prudent to pay them cheaply and later wonder what happened...

Fraud

How To Deal With It When Discovered

1. How common is it?
 - A. We see it 2 - 3 times per year in various forms
 - B. About half of the time we discover it and the other half the city discovers it (a good thing -> means controls are working)
 - C. Embezzlement amount typically ranges from \$200 - \$50,000
2. Common initial reactions
 - A. Shock. "We can't believe he did this to us. We paid him a \$20K salary and have been considering giving him a raise for several years." [Actual embezzlement less than \$1,000.]
 - B. Blame. "It is the auditor's fault. And the assistant clerk. And our attorney. They all need to go. That will get us fixed up." [Actual embezzlement less than \$300.]
3. After initial discovery and reaction, many fraud situations do not get prosecuted provided reinstatement is made and the offender is removed

Fraud

How To Deal With It When Discovered

1. Step 1: Discovery

- A. Remain calm and keep information confidential
- B. Gain a preliminary understanding of the size and details of the situation
- C. Contact your auditor/attorney for advice on how to proceed
- D. An internal audit (using your own city staff) is often the best (and most affordable) way to gain facts on the situation to determine its size and scope
- E. When all facts are available to make an informed decision (is it really fraud, is there evidence to support an accusation, is it significant, etc.), proceed forward... Until then, it is just an "alleged situation."

2. Step 2: Consider the Facts

- A. It is not uncommon in this social media world for certain members of the public to want the embezzler of a \$20 bill to be tarred and feathered and run out of town on a plank
- B. And while this black and white approach may clearly be righteous, there is more at stake when managing public money than what appears on the surface

Fraud

How To Deal With It When Discovered

1. Step 3: Consider the Costs of Prosecution, Etc.
 - A. Forensic audit. \$40K minimum from what we've seen – does not include expert witness testimony at trial
 - B. Legal fees. \$40K to \$80K+
 - C. A lot of time spent on discovery, media correspondence, pre-trial, and trial
 - D. Getting witnesses to testify – usually not successful

If You Win:

- May be awarded restitution. Typically based on defendant's ability to pay; perhaps \$25 per month for so many years. If s/he misses a payment, back to court you go.
- Community is often divided.

If You Lose:

- S/he may sue you for defamation of character, etc. This may or may not be covered by insurance.
- Community is alienated from City. Everyone loves an underdog, especially an innocent one.

Fraud

How To Deal With It When Discovered

1. Step 4: Consider Best Approach for City

- A. Consider dollar amount of fraud versus known/unknown costs of prosecution
- B. Any bond levies or rate increases in the near future?
- C. Consider what is most important. 1) Removal of offender and 2) restitution of loss. Can a better approach be used?
 - a) Remove/transfer*/add controls to* offender and obtain restitution be achieved? *Only for insignificant issues.
 - b) If so, consider this approach. Work with your attorney to draft necessary paperwork.
- D. If the fraud is material or contains federal or other monies that must be prosecuted following laws or regulations, follow their guidelines.

Questions?

Congratulations – you made it through it!

