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Title: Audits and Audit Standards	

201. References:

1. Code of Federal Regulations: Title 45, Part 74
2. Code of Federal Regulations: Title 7, Part 277.17
3. Government Auditing Standards issued by the Comptroller General of the United States
4. Executive Reorganization Act of 1972
5. Single Audit Act Amendments of 1996 (PL 104-156)
6. DHR Online Directives Information System – Index POL 1242

202. Description

A. DHR Office of Audits is an independent management control and appraisal activity, it was established to primarily serve DHR management in determining that:

1. Funds, property and other assets of DHR Divisions/Offices are safeguarded;
2. Resources are effectively and efficiently used;
3. Applicable regulations, laws, policies, procedures and generally accepted accounting principals are followed; and
4. Funds are spent within authorized limits and intent.

B. In fulfilling its mission and responsibilities, the Office of Audits conducts financial and compliance audits of DHR Division/Offices and reviews the audits of programs funded by the Department, which are performed by independent contracted auditors.

In addition, the Office of Audits also conducts special request audits, reviews and examinations. These special request audits are performed when fraud, defalcations or other irregularities are suspected, or when problems needing attention are believed to exist with agencies.

C. All programs/agencies being audited are expected to provide every possible assistance that will help the progress of the audit. For the period to be audited, the County Department and/or Regional Accounting needs to have readily available the following records:

1. Bank Reconciliations as of the end of the fiscal period
2. Bank Statements, canceled checks and deposit receipts for the fiscal period.
3. General ledger and all journals and registers for the fiscal period.
4. All paid bills, purchase orders, receiving reports, etc.
5. A detailed listing of the amounts comprising Accounts Receivable on your General Ledger at the end of the fiscal period.
6. A detailed listing of the amounts comprising Accounts Payable on your General Ledger at the end of the fiscal period.
7. A listing of each employee's accrued annual leave and their hourly rate of pay as of the end of the fiscal year.
8. All other records dealing with, or reflecting upon the financial transactions and management of your Agency.

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In order to comply with the requirements of the Single Audit Act of 1996, sample client files in certain areas (i.e. Foster Care, Child Care, etc.) will be reviewed as part of the audit.

Note: The DHR Office of Audits will assume custody and control of documents and records where there is evidence of fraud or defalcation, or where there is other reasonable need to protect documents from loss, alteration or destruction. Audit staff will provide receipts when custody of records becomes necessary.

D. Audits will be conducted in accordance with the following:

1. "Generally Accepted Auditing Standards" adopted by the American Institute of Certified Public Accountants (AICPA).
2. "Government Auditing Standards" (Yellow Book) issued by the Comptroller General of the United States.
3. Other policies, rules, and regulations as necessary.

203. Notification and Preparation of Audit

- A. The DFCS county Director will receive written notification from the DHR Office of Audits at least ten (10) calendar days before fieldwork starts. At least two (2) calendar days before the beginning of the fieldwork, the auditor in charge will telephone the County Department and confirm the beginning date of the audit. As requested by appropriate authorities, Office of Audits may conduct unannounced audits.
- B. After the County Department has received notification, the County Director should contact the DHR Office of Audits if there are any problems/conflicts in regard to the date of the scheduled audit. In addition, if there are any problems/concerns with records to be audited, the County Director should contact the Field Fiscal Services Section.
- C. Upon a request from the DFCS County Director, Field Fiscal Services staff, or the Office of Audits staff, the auditor-in-charge will conduct an entrance conference at the beginning of the audit. The County Department staff, including County Director, his/her designee, accounting staff (county or Regional), and any others that agency management may desire to invite, should be present. During the requested entrance conference, the auditor-in-charge will discuss:
 1. The purpose and scope of the audit;
 2. The expected length of the fieldwork;
 3. Any problems identified prior to the audit;
 4. Findings of previous audits, if applicable; and
 5. Any special needs such as working space, desk(s), etc.

The Director should appoint an individual to serve as a contact or liaison for the audit.

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204. Completion of Audit Fieldwork

A. Upon completion of the audit fieldwork, the auditor-in-charge will conduct a post audit or exit conference. The County Department staff, a Field Fiscal Services representative and any others that agency management wishes to invite should be present. The auditor-in-charge will discuss;

1. Specific financial results;
2. Findings and/or Questioned Costs;
3. Time limits for responding to the audit;
4. Proposed Audit Adjusting Entry
5. The audit report release process; and
6. The procedures available to the agency if it disagrees with findings, financial results or any other area of the audit.

The audit exit conference allows the appropriate County DFCS staff and the Field Fiscal Services representative an opportunity to discuss problems that will be resolved during the period that the audit is in draft form.

If possible, a working paper copy of the financial settlement and findings will be provided to the audited agency. Note: Financial Settlement, Findings and/or Questioned Costs, and the Proposed Audit Adjustment are proposals by the auditor and subject to revision during the review process.

B. A draft audit report is prepared for discussion and review purposes only and is subject to change as a result of the review process. Therefore, it is not considered a "public information" document. Copies of the draft audit report are sent to the following individuals:

1. County Director
2. Division Director
3. Section Director, Field Fiscal Services Section

Those receiving the draft audit report are responsible for reviewing the document. The County Director has a thirty (30) calendar day comment period from the date of the audit report's transmittal letter to:

1. Analyze the financial data to determine if the county's records are in agreement;
2. Make any comments and/or suggestions relative to the contents of the draft audit report; and
3. Provide additional documentation or information to support the county Department's position if there is a disagreement with a finding or the financial statement.

Comments, suggestions, disagreements with findings, etc. should be sent to:
 Director, Office of Audits
 2 Peachtree Street, NW
 Suite 26.425
 Atlanta, GA 30303-3142

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The communication should refer to the specific audit finding or other area(s) of concern and the nature of the additional documentation or information in support of the County Department's position. Staff of the Office of Audits will contact the County Director (or his/her designee) to discuss these matters. In cases where expressed concerns cannot be jointly resolved, a Formal Exit Conference may be held.

- C. A Formal Exit conference may be requested within the thirty (30) calendar day comment period. The request should be submitted in writing to the Director, Office of Audits, at the address previously given. The request should specifically outline audit findings or other areas of concern to be discussed, and the nature of any additional documentation or information to support the county department's position.
- D. One year after an audit report is finalized, the Office of Audits will notify in writing, the Division of Family and Children Services, and the County Department of Family and Children Services of any corrective action(s) that were to have been taken. This is to serve as a reminder to the County Director and/or the Field Fiscal Services section of the steps needed to preclude the recurrence of the reportable conditions in subsequent audits.

Additionally, an audit team may conduct a field visit to the County or Region to review the implementation of the corrective actions.

205. The Audit Report

- A A Final Audit report will be issued following a review of all comments, suggestions and concerns and/or the completion of the Formal Exit Conference (if requested). If the draft report has not been substantially revised, the final audit report will be sent to the County Department and the County Commissioners for that county. If a financial settlement is disclosed in the audit, a copy of the audit will be sent to the Director, Office of Financial Services. The state officials who received the draft audit report will be sent a copy of the cover letter transmitting the **final** audit report. The copy of the cover letter will serve as notification that the audit report has been issued in final form.

If the draft report has been substantially revised, all persons who were furnished with a copy of the draft audit report will also receive a copy of the final audit report.

- B. The audit report consists of several parts. The principle parts of the audit report are as follows:

1. The **Overview** is in the **Audit Comments Section** of the audit. The Overview details the various program and services administered by the County Department of Family and Children Services.

In addition, the Overview states with whom the contents of the audit report were discussed. This discussion normally takes place at the audit exit conference.

Finally, the Overview states whether or not the findings and recommendations contained in the prior audit report (if any) were acted upon with appropriate corrective actions.

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2. The **Financial Settlement** affects the County Department more directly. This section identifies the amount that was overpaid or underpaid the County Department as of the ending date of the audit period. As a result, once the audit report becomes final, the DHR Financial Services is instructed to increase or decrease a subsequent DHR check for the amount of the financial settlement.
3. The **Findings and/or Questioned Costs Section** lists the audit exceptions disclosed during the audit. The findings are based on deviations from DFCS policies and procedures used by the County Department.

The County Department will receive a draft audit report, which has a thirty (30)-calendar day period in which to respond to any findings where there are disagreements. If the County Department agrees with the draft audit report, there is not a requirement to respond to the draft audit.

Once the audit report becomes final, the County Department must provide a plan of corrective action for all Findings and/or Questioned Costs to the DHR Office of Audits.

4. The **Auditors' Opinion** is a report (letter) on the county's **Financial Statements**. In this report, the auditor(s) render an opinion, as to whether or not the agency's financial statements, in accordance with Generally Accepted Accounting Principles fairly present financial condition as of the audit date and results of operations for the period then ended.
5. The **Auditors' Report on Internal Control** deals with the study and evaluating of the County Department's system of internal accounting control.
6. The **Report of Compliance** deals with the compliance or noncompliance of the County Department with respect to all laws, regulations, contracts and grant provisions applicable to the County Department being audited.
7. The **Financial Statement Exhibits** include:
 1. Statement of Net Assets
 2. Statement of Activities
 3. Statement of Changes in Funds Held for Others
8. The Notes to the Financial Statements provide a summary of significant accounting policies as well as a further analysis of certain Balance Sheet accounts. Normally, the accounts detailed in this section are Cash, Accounts Receivable, Accounts Payable and adjustments to all fund balances for the period covered by the audit.

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205. The Proposed Audit Adjusting Entries

- A. Many times the auditor(s) provide the County Department with adjusting entries (General Journal Entry) during the process of the audit and at the completion of the audit fieldwork. The purpose of the adjusting entries is to bring the agency's accounting records into compliance with audit balances. The County Department should compare its financial data with the changes recommended by the auditor(s) to ensure that the adjustments are not duplicated.**

- B. Proposed adjusting entries should be presented and discussed with accounting staff before the end of the audit fieldwork. Proposed adjusting entries affecting the fund balance should be discussed with County Director (or Designee) before end of audit fieldwork.**

- C. As presented, the audit adjusting entry is only a recommendation by the auditor. Final approval and incorporation of the journal entry into the agency accounting records rests with the County Director and/or the Fiscal Operations Manager.**