Statewide Agreed-Upon Procedures – Frequently Asked Questions

The following frequently asked questions (FAQs) are based on feedback received from local officials and practitioners after the Louisiana Legislative Auditor (LLA) issued the Year 2 statewide agreed-upon procedures (AUPs) on June 6, 2018. We will continue to update these FAQs periodically as we receive additional feedback.

Introduction and General Comments

- For Year 2, is the LLA still considered to be a specified party to the statewide AUP engagements?
  - Yes, the LLA is a specified party to the statewide AUP engagements and accepts the sufficiency of AUP procedures by the acceptance of our standard (audit) engagement approval form.
- If no exceptions were noted when performing a procedure, is "no exceptions noted" an acceptable response?
  - Yes, "no exceptions noted" is an acceptable response.

Applicability of AUPs

- Do the statewide AUPs apply to <u>state</u> entities?
  - No, the statewide AUPs only apply to local governments and quasi-public entities. The LLA currently has 5 different types of agreed-upon procedures engagements, as follows:
    - State entity (not "statewide") AUPs are required for certain engagements for entities that are included in the state's CAFR. These engagements are contracted directly by our Financial Audit Services group and do not apply to local governments or quasi-public entities.
    - Statewide AUPs are required for local governments and quasi-public entities that receive public funds of $500,000 or greater.
    - Review/Attest engagements include AUPs for local governments and quasi-public entities that receive public funds between $200,000 and $500,000.

- Act 774 AUPs only apply to local governments and quasi-public entities in St. Tammany Parish that receive public funds of $75,000 or greater. These procedures are customized by the LLA for each engagement.
- Department of Education Performance Measures AUPs are required for school boards and charter schools.

More than one set of AUPs may be required, depending on whether each criteria above has been met. For example, an entity in St. Tammany Parish, with public funds between $200,000 and $500,000 would be subject to both the Review/Attest AUPs, as well as the Act 774 AUPs. Similarly, a parish school board with public funds of $500,000 or greater would be subject to both the statewide AUPs and the Department of Education Performance Measures AUPs.

- The LLA notes that "the entity may exclude those AUP categories that are covered under federal program testing, regardless of whether the federal program testing includes the same procedures or sample sizes." If a practitioner has a client with only 30% of its public funds subject to major program testing, does the practitioner still have to test the related AUP categories for the remaining 70% of its public funds?

  - Yes. Our intention was to reduce redundant Single Audit testing and provide efficiencies for the practitioner; however, we did not intend to completely eliminate testing for those categories that include local, state, or non-major federal funds. We recommend selecting sample sizes for the applicable categories from the overall population of all transactions and then removing those sample items that fall within Single Audit testing. Alternatively, the practitioner could apply a pro-rata ratio (70% in the example above) to the AUP sample sizes to accomplish the same goal.

Rotation of Procedures

- For those categories that are rotated in Year 2, should the practitioner's report include those categories that are not tested (e.g., labeled as "not applicable"), or should those categories be excluded from the AUP report?

  - We will accept the report in either format but would prefer that the practitioner exclude rotated categories from the AUP report. Under either option, the practitioner may need to update the AUP engagement agreement to ensure that the original procedures "agreed-upon" with the client match the final procedures performed and reported upon (i.e., ensuring compliance with AT standards).

- If the practitioner only noted one exception for one procedure in a category, is the practitioner still required to retest the entire category for Year 2?

- Yes, the entire category must be retested. The Year 2 option to rotate is at the "category-level" rather than the "procedure-level."

- If the practitioner did not identify any exceptions (or had compensating controls that fully mitigated the underlying control risk) in any categories in Year 1 for one of its clients, are statewide AUPs required to be performed for that entity for Year 2?

  - No, the LLA would not expect to receive a statewide AUP report for that entity in Year 2. When submitting the audit report packet to the LLA, the practitioner should check the button in the LLA report portal indicating that statewide AUPs were not required.

- Does a change in auditor in Year 2 have an impact on rotating categories?

  - No, if the predecessor practitioner did not identify any exceptions in one or more categories at a client in Year 1, the Year 2 practitioner is not required to retest those categories.

- If an agency had no debt in a prior year (i.e. debt category was "not applicable") but issued debt during the current year, can the practitioner rotate the category because there no exceptions noted in the prior year AUPs?

  - No, if a category was not applicable in Year 1, but is applicable in Year 2, then the practitioner must test the category in Year 2.

- If the only exception in the Collections category in Year 1 related to deposits that were not made within one day of collection, and the deposits would have met the timely deposit criteria for Year 2 (i.e., within one week if the depository is more than 10 miles from the collection location or the deposit is less than $100), can the Collections category be rotated in Year 2?

  - Yes, the category can be rotated in those situations that would not constitute an exception in Year 2.

Collections

- Do the Collections procedures apply to electronic receipts, such as EFTs?

  - No. Collections procedures are limited to cash, checks, and money orders.

- If an entity has a 3rd party contractor performing all collection functions (receiving collections, preparing deposits, and making deposits), is the practitioner required to perform the related Collections procedures?

  - No, the related procedures would not be required to be tested at the entity.

Disbursements – General

- Under the Credit Cards category, the LLA notes that "requiring such approval may constrain the legal authority of certain public officials; these instances should not be reported." Does the same approval exclusion apply to the Disbursements category as well?

    - Yes, this provision would apply to disbursements as well. We would not expect an elected mayor to need board approval for routine transactions, nor would we expect an elected police chief to need an elected mayor's approval for routine transactions. Any procedure that would infringe on an elected official's responsibilities would not be considered to be an exception under the statewide AUPs.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

- How should procedure #13 be addressed if one or more card statements selected in procedure #12 are for fuel cards?

    - Selection of a fuel card under procedure #12 would reduce the total number of transactions tested under procedure #13. For example, if 3 credit cards and 2 fuel cards were selected under #12, only those 30 transactions related to the credit cards would be tested under #13. Conceivably, if all selected cards were fuel cards, step #13 would not be applicable. However, because the selection of cards under procedure #12 is based on random selection, the practitioner should not judgmentally select fuel cards to avoid testing under procedure #13.

- One of our clients utilizes SmartData for their credit cards through Chase, which requires a transaction-level review of charges. Would this constitute "evidence that the monthly statement or combined statement and supporting documentation…was reviewed and approved, in writing…"?

    - Yes, if the practitioner has evidence that all transactions are being reviewed and approved, this would not be an exception. The practitioner could either explain the process in the AUP procedure results or could customize the AUP procedure to fit the actual review/approval process.

- To address credit card transaction documentation that did not include an itemized receipt, one client required its employees to complete a "Missing Receipt Statement" (one example was due to a parking garage receipt machine that was out of paper). The Statement requires a

description of the issue and items purchased and requires both the card holder's and supervisor's written approval. How should this be reported for purposes of AUP results?

- If this was an isolated occurrence, the practitioner could describe the nature of the transaction and note that management had a compensating control to address such isolated occurrences.

- If school staff use credit cards for student activity funds, are these cards subject to the statewide AUPs?

  - Yes, all credit/credit/fuel cards used by school staff for either school operations or student activity fund operations are subject to the statewide AUPs.

Debt Service

- For procedure #22, which states in part "obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants," do "reserve balances" include contingency funds, short-lived asset funds, or other funds identified in the debt covenants?

  - Yes, the term "reserve balances" would include any required funds identified in the debt covenants.

Sexual Harassment

- Is a private non-profit, that is considered quasi-public for audit purposes solely due to the receipt of public funds, required to comply with the annual sexual harassment training and sexual harassment policy requirements under R.S. 42:341, et seq.?

  - It depends: a private non-profit subject to audit by virtue of the receipt of public funds does not appear to be subject to the sexual harassment law, R.S. 42:341, et seq. However, the non-profit should review their agreements to receive public funds to determine if there is a requirement for the non-profit to comply with R.S. 42:341, et seq.