Presenters

- Tim Jones, CPA, CFF
  - Audit Manager – (Counties/Cities)

- David Coles, CPA, CIA
  - Information Systems Audit Supervisor
Provides Audits/Reports:

- State Agencies
- Public Educational Institutions
- Cities, Counties (75), and PAs
- Special Reports
Legislative Audit Management

Legislative Auditor
Roger Norman, J D, CPA, CFE, CFF

Deputy Legislative Auditor - Counties and Municipalities
Marti Steel, CPA
Legislative Audit Staff

- 250 professional and 10 support
  - 170 CPAs
  - 50 CFEs
  - 11 CFFs
  - 10 CI SAs
  - 3 Attorneys
Legislative Joint Auditing Committee

- 44 Legislators
- 3 Standing Committees
  - State Agencies
  - Educational Institutions
  - Counties and Cities
Legislative Joint Auditing Committee (cont.)

Meets

- 2nd Friday (Full)
- Preceding Thursday (Standing)
- September – Thurs & Fri (10-11)
  - COVID exception for Sept.
- 500 Municipalities
- 460 use ALA (2018 engagements)
- 40 hire private CPAs
Municipal Audit Work Not Performed by ALA

- Water and Sewer
- Federal Compliance
• AML Finance 201 class 8 months ago

• Effect of COVID on 2020
Beware of Need for Fed Compliance Audit

- > $750K in federal expenditures
- Includes all funds (Water/Sewer)
- Hire private CPA
COVID-19 Issues

- Consider financial implications
  - Federal compliance audit?
  - Budget revisions?
- Areas of increased risk?
  - Accounting (financial recording)
  - Fraud
Fraud Triangle

- **Pressure/Motivation**
  - COVID loss of income

- **Opportunity**
  - Weakened internal controls?

- **Rationalization**
Internal Control Suggestions

- Unopened bank statements routed directly to Mayor (or Mayor’s representative) for review.

Reasonableness

Unusual disbursements
Internal Control Suggestions

• Mayor (or Mayor’s representative) review of bank reconciliations prepared by Treasurer (ACA 14-59-108)

• Monthly financial statements/report review by City Council (ACA 14-59-115)
Internal Control Reminders

- Credit Card Statement Review
  - By someone outside department or Mayor (rep)
  - Reasonableness
  - Unusual items
Compensated Absences Issues

- Decreased Usage due to COVID = Increased Payouts at Year End?
  - Or Staffing Issues at Year End?

- Internal Controls enhanced when employees take leave as allowed
Municipal Financial Distress

- Payroll Taxes Owed to IRS/DFA
- Misuse of Restricted Funds
  - Street turnback & property taxes
    - ACA §§ 26-79-104, 27-70-207
  - Sales/property taxes
- Unpaid Workers’ Comp Coverage
Municipal Financial Distress

- Water/Sewer Drain
  - Large transfers from General Fund
- Overspending (Budget overruns)
Water/Sewer Department Trends

• W/S Audits not Completed
• Aging Infrastructure
• Attention/Interest of Legislature
  • SB 481 of 2019 (not passed)
    • Fiscal/Operational accountability
    • Rate Study every 5 years
    • Consolidation
Water/Sewer Department Trends

- Recently observed
  - Small City Water System
  - Needs new elevated water tank
  - Gen Fund heavily subsidizing WS
  - Unable to obtain funding due to inadequate rate/fee structure and revenue to expense ratios
ACA § 14-59-117

Withholding TB for noncompliance w/MAL

- ALA or Private Acct notifies LJ AC
- LJ AC notifies City
- 60 days, 50% TB withheld
- 120 days, 100% TB withheld
- 6 months, TB redistributed
Noncompliance catching the Attention of ALA

- Noncompliance with codes that affect the ability of the Council to make informed decisions
  - Financial records
  - Financial statements
  - Financial reports
“Speed Trap Law”
(Act 364 - Amends ACA §§ 12-8-402 – 405)

1. Defines/Clarifies terms
2. Requires audit “inquiry”
You’re a Speed Trap If:

Court revenues > 30% of total exps

A. Revenues don’t include $ collected for another entity

B. Expenditures don’t include:
   1. Capital
   2. Water/Sewer Dept
   3. Fiduciary Fund
   4. Enterprise Fund
   5. Debt Service Fund
You’re a Speed Trap If:

OR

> 50% speeding citations are for going
≤ 10 mph over the speed limit
10 Most Common Municipal Audit Findings
Context

- List is based on 2018 reports and include 1\textsuperscript{st} and 2\textsuperscript{nd} class cities and incorporated towns.
1. Fraudulent Checks

- Checks fraudulently drawn on City bank accounts using actual routing and account numbers
- Most cases cities recovered the $
- Outside perpetrators
2. Bank Reconciliations

- Failure to prepare
- No review by person other than preparer
- Inaccurate
- Rec/Disb Journals not rec to depts/WDs

ACA § 14-59-108
3. Misuse of Restricted Funds

- Street turnback & property taxes
- Other (sales and property taxes)

ACA §§ 14-59-104, 26-79-104, 27-70-207
4. Errors in Financial Records

- Material misstatements
- Errors in Rec/Disb Journals

ACA §§ 14-59-110, 111
5. Budgets

- Failure to prepare
- Failure to adopt by ordinance or resolution
- Expenditures exceed budget
- Adoption not recorded in minutes

ACA §§ 14-58-202, -203
6. Receipts

- Prenumbered Receipts not Issued
- Receipts not deposited intact/timely

ACA § 14-59-109
7. Police/Court

- Ending bank balance unidentified
- Deposit errors (not intact/timely)
- Inaccurate settlements
- Citations not entered into system

ACA §§ 16-10-201 – 211
7. Police/Court (Continued)

- Citations not reconciled to court
- Council didn’t appoint collector of fines
- Use of Court Account as operating fund
- Failure to remit to State timely

ACA §§ 16-10-201 – 211, 16-13-709
8. Fixed Assets

- Failure to prepare a list
- Inaccurate
- No policy adopted by council
- Additions/deletions not authorized

ACA § 14-59-107
9. Undocumented or Inadequately Documented Expenditures

ACA § 14-59-105
10. Shortages (Fraud)

- Shortages
  - Undeposited Receipts
  - Unauthorized Disbursements
    - Checks
    - Credit Cards
    - EFTs
(Honorable Mention) Water/Sewer Audits

- Audit or AUP & Compilation not Obtained
  - Water (100/1000)
  - Sewer (100/750)

ACA § 14-234-119
Honorable Mention

Arkansas Constitution Article 12, sec. 5

A city or a town may not become a stockholder in, appropriate money for, or lend credit to private corporations or individuals.

- Exception for Economic Development
ACA § 14-59-117

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- 6 months, TB redistributed
- No TB until in compliance
Noncompliance catching the Attention of ALA

- Noncompliance with codes that affect the ability of the Council to make informed decisions
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Resources

- Legislative Audit website (www.arklegaudit.gov)
  - “Resources” tab
  - “Our Reports” (Audit reports)

- Municipal League website (www.arml.org)
  - Handbook for Arkansas Municipal Officials ($100)
  - Mun Acctg Handbook (Free)

- State website (www.arkansas.gov)
Information Systems
IT Security Risk

Impacts to an organization and its stakeholders that could occur due to:

- The **threats** and vulnerabilities associated with the operation and use of information systems
- The environments in which those systems operate

Source: [https://www.sciencedirect.com/topics/computer-science/information-security-risk](https://www.sciencedirect.com/topics/computer-science/information-security-risk)
IT Risk to an Organization

- Cybersecurity
- Insider Threat
- Outdated Technology
- Updates to Technology
- Reputation
Risk Management

The process of identifying and mitigating risk

- Perform a risk assessment
- Implement internal controls
- Planning
- Communication
- Monitoring
Why It’s Important

By controlling that risk, an organization

- Increases the probability of a positive outcome
- Reduces the negative affect
Green Book

- Framework for designing, implementing, and operating an effective internal control system

Five Components of Internal Control

Source: https://www.gao.gov/products/GAO-14-704G
The Threat

Since the Covid-19 virus cybercriminals have rapidly modified their tactics.

Covid-19 themed phishing attacks began in early March of 2020. Although these type attacks appear to be declining expert encourage vigilance.
Number of COVID-19-themed Phishing Landing Page Deployments

Spear phishing

- An email or electronic communications scam targeted towards a specific individual, organization or business. Although often intended to steal data for malicious purposes, cybercriminals may also intend to install malware on a targeted user’s computer.

Source: https://usa.kaspersky.com/resource-center/definitions/spear-phishing
Spear Phishing Examples

- Emails with malicious documents attached
- Emails luring users to phony website asking for user credentials and passwords or other confidential information
- Emails trying to grab your curiosity by using catchphrases, such as “urgent”, “censored”, “breaking news”
- Fake customer advisories claiming to provide customers with updates leading to a malware download
Giveaways

- Poor grammar, punctuation and spelling
- Poor design, quality and content of the email
- Doesn’t addressed you by name uses terms such as “Dear sir or madam,” “Dear friend” or “Dear customer”
- Includes threats or a false sense of urgency
- Solicits personal or financial information
- As always if it sounds too good to be true, it probably is
Mitigation

- Raise awareness among employees warning them of the heightened risk of COVID-19 themed phishing attacks
- Make sure you set up strong passwords, and preferably two-factor authentication, for all remote access accounts.
- Provide straightforward guidance on working remotely how to make sure they remain secure and tips on the identification of phishing
- Ensure that all computers have up to date anti-virus and firewall software
- Ensure that all computers are encrypted.
- Restrict administrative privileges
Final Points

• Ensure that finance processes require confirmation anything out of the ordinary should be scrutinized
• Ensure critical security patches and update firewalls and anti-virus software are applied
• Ensure that all critical systems are backed up and stored off-site very important to validate the integrity of those backups

• COVID-19 will drive significant changes in how you and your organization work, stay safe and stay secure
Resources


- https://us-cert.cisa.gov/ncas/alerts/aa20-099a
Questions

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