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September 9, 2020

Members of the Audit Subcommittee,

The following is the State Board of Accounts COVID Emergency Response Report, as required by Legislative Council Resolution 20-02. The agency has successfully adjusted our businesses processes throughout the public health emergency, while maintaining the quality of our vital audit services to state and local government. I am proud of the work that our team has done and look forward to sharing those results with you.

If you would like to discuss any matters relating to the agency or the below report, please do not hesitate to contact me.

Respectfully,

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

I. CURRENT AGENCY OPERATIONS

On Site Auditing:

Traditional audit practice is done on-site and involves substantial person to person interaction. Auditors drive to the primary location of the auditee and request documentation that is generally in paper form. From that information, they perform on-site testing of data, ask questions of the auditee, and compare the documents presented with the auditee's financial statements.

During the course of the public health emergency, the agency has shifted from on-site to remote auditing. Remote auditing has been an agency wide goal, but the current environment deemed it a necessity as opposed to a desire. [IC 5-11-1-29](#) allows auditors to gain remote access to an auditee's financial data. This access coupled with the required uploads to the Indiana Gateway Portal have allowed the agency to keep on track with the planned audits for the current cycle, even during the stay-at-home-order.

However, the ability to fully audit a unit remotely can be hindered by many factors, including the unit's willingness and the type of financial system they employ. Some units of government, such as Townships and smaller special districts, do not have quality access to the internet, nor do they keep their books on a computer system. As such, an on-site audit is the only viable option.

Audit practice requires a substantial amount of communication with the auditee about how they perform their processes and administer their duties. This is more difficult in a remote situation, but the agency is using technology such as Webex, Microsoft Teams, and teleconferencing to keep lines of communication open with auditees.

The immediate transition to remote auditing was required by the Governor's Stay At Home Order. However, [IC 5-11-1-4](#) and [IC 5-11-1-29](#) enabled the agency to make the transition without any additional legislative changes. Even once the public health emergency is over, the agency intends to keep using remote auditing as its primary source of auditing. However, for the reasons stated above, on-site auditing will still be required in many instances.

In- person Exit Conferences:

Once an examination is complete, auditors and the auditee have a gathering known as the "Exit Conference." ([IC 5-11-5-1](#)) This is an important opportunity for auditors to discuss with the auditee's chief executive officer the various matters discovered during the course of the engagement. They can also provide more context to the comments and findings made in the official report. Auditees ask questions about the results and ask for feedback on how to improve their next audit.

Prior to recent events, these have been in-person meetings at a primary physical location. However, with the need to social distance and limit contact among different groups of individuals, these are now being held remotely.

Delayed Operations:

As required in [IC 5-11-1-2](#), the State Board of Accounts is required to develop a uniform system of accounting for all units of government. Currently, the majority of local governments are under a regulatory reporting framework of cash-basis accounting. The agency is in the process of rolling-out changes to this system entitled "Enhance Regulatory". (The exception to this are units under GAAP per [IC 5-1-11.5](#))

Enhanced Regulatory Basis will require units to adjust how they present their financial statements. Additionally, it requires an additional level of inquiry for our audit staff to make representations about the financial statements. In order to avoid implementing a change while units are working in unprecedented conditions, we chose to delay this process. For details on what will be delayed please see "[Enhanced Regulatory Delays](#)" and the corresponding "[Schedule of Changes](#)."

The agency could make this adjustment without any executive order, as the system of accounting is determined by the State Board of Accounts and the State Examiner ([IC 5-11-1-2](#) & [IC 5-11-1-4](#)).

Cares Act Response:

Through the Coronavirus, Aid, Relief, and Economic Security (CARES) Act, the federal government has made a substantial amount of money available to state and local governments, universities, and nonprofit organizations. These dollars are coming through increases in existing federal award programs as well as new funding sources through the Act. As Indiana's designated auditors, the State Board of Accounts will be responsible for auditing or overseeing the audits of the majority of these funds.

Under the direction of the State Examiner, the agency has created a CARES Act Taskforce so we are prepared to audit and advise recipients of these funds as appropriate. (See: [CARES Act Fund Numbers](#) and [Accounting and Appropriation of COVID-19 Grants](#)) The Taskforce has been meeting regularly with state officials and staying apprised of the ever-changing information coming from the federal government.

[Per 2 CFR §200.501](#), any non-federal entity that expends more than \$750,000 in federal awards in a particular fiscal year must have a single audit completed in accordance with Uniform Guidance and Generally Accepted Government Auditing Standards. The first round of audits affected by the influx of federal funds will be FY20 audits of the State, Universities, and schools. Specific auditing requirements for existing and new federal programs are still being developed by the federal government.

Even with the limited information available, current levels of additional federal dollars flowing to state and local government will increase the agency workload for at least the next two audit cycles. Should the federal government pass more legislation that provides additional relief or alters the expenditure deadlines, the impact will last for multiple audit and budget cycles.

Uses of Public Funds and Audit Exceptions:

At the beginning of the public health emergency, the agency received multiple inquiries regarding our audit position on whether certain expenditures of public funds were acceptable uses of local government money. Answering these inquiries is a routine function, but has seen a substantial increase during the public health emergency.

A common theme among the inquiries is whether a public health emergency is an appropriate reason to suspend or read flexibility into statutorily restricted funds. Or whether those restrictions can be suspended entirely via [IC 10-14-3-17](#) during an emergency disaster declaration. With that issue in mind, the State Examiner issued the following memo, [Policies on Assistance during COVID-19](#).

2. AGENCY OPERATIONS MOVING FORWARD

Encourage Remote Auditing

Audits are the most valuable when they are performed in a timely manner and contain information that is relevant to an auditee's current financial picture. In order to meet both of those objectives successfully, we need to continue to improve and enhance the agency's remote auditing practice. While we currently have the tools to do this at the State level, much is to be desired at the local level.

If the agency were able to incentivize remote auditing, it would remain sustainable for us in the long-term. As much as it is encouraged, there needs to be some enticement for auditees to employ various tools such as webcams, electronic document storage, enhanced financial systems, and access to high-speed internet.