

## SINGLE AUDITORS – ALL ALIKE, RIGHT?

### INSIDE THIS ISSUE:

<i>Single Auditors— all alike , right?</i>	1
<i>Is Lindley &amp; Associates - your auditor?</i>	2
<i>Manipulation— the backbone of fraud</i>	3
<i>Tech Corner - Cloud Quick- Books On-line</i>	3
<i>Insert - Acctg for Contributions, Pledges &amp; More</i>	

By: Martha A. Lindley CPA

You will remember, without fondness, the *Report on National Single Audit Sampling Project* (2007) published by the Government Accountability Office (who are auditor's auditors) in which they conducted a statistically based test of audit quality (the work of the CPAS). Their findings on Single Audits (SA) were dismal:

For the 112 audits reviewed for Organizations expending more than \$500,000 and less than \$50M in federal awards, the study concluded that:

- 54 (48.2% of all audits) were acceptable and thus could be relied upon.
- 18 (16.1% of all audits) had significant deficiencies and thus were of limited reliability.
- 40 (35.7% of all audits) were unacceptable because they were substandard and could not be relied upon. Seven of the 40 unacceptable and substandard audits also included material reporting errors.



So the next step was a recommendation that all CPAs performing Single Audits take a mandatory three day class. This recommendation was challenged by the AICPA, who said they would carefully monitor the CPAs themselves. The AICPA then established the Government Audit Quality Center. The Center provides many webcasts, and for the first time, information is on-line and free. The GAO criticized the AICPA

“DELIVERING AN IMMERSIVE, ULTRA-PREMIUM, COFFEE-FORWARD EXPERIENCE” STARBUCKS CHAIRMAN.

WE ARE JUST PLAIN-LANGUAGE AUDITORS.

COPYRIGHT ©2017  
Martha A. Lindley Permission  
to reproduce must be  
obtained in writing



The information in this newsletter is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation. For additional information, **PLEASE CONTACT US.**

for charging CPAS for guidance literature, when similar government literature is free and on-line. As a side note, GAO is now requiring a mandatory four hour class (which I have taught since 2000).

But the issue has not gone away. The AICPA has just issued a study they conducted. The issue of audit quality remains. The AICPA is now testing if their recommendation made any change in audit quality.

A new study by the AICPA Peer Review team has revealed a set of factors that had a strong correlation with quality in SA. The Peer Review team randomly selected a sample of 87 single audits (the entire population of SA is about 38,000). The engagements were selected from a population of about 1,100 engagements that were subject to peer review and had year ends of Nov. 30, 2015, or earlier. The difference in the populations (1,100 vs 38,000) is that not all states or all government auditors require a peer review – an on-site of audit workpapers by the Board of Accountancy).

continued on page 2

## IS LINDLEY & ASSOCIATES YOUR SINGLE AUDITOR?

- 1) Lindley & Assoc has performed Single Audits (SA) since 2000.
- 2) Martha, engagement partner, has performed SA since 1993. Number of SA performed—200+
- 3) Martha has taught 8 hour courses in SA nationally and to other CPA firms since 2000.
- 4) Martha is a former WA State Auditor, which performs all SA of government agencies in the State –

- a training ground for over 400 SA auditors
- 5) All SA on-site auditors have specific SA CPE, as required.
- 6) Lindley & Assc is a member of GAQC.
- 7) Martha worked for a top 100 firm in the USA
- 8) Ryan, Audit Manager, former contract internal auditor, Microsoft



### SINGLE AUDITORS continued

The review showed that three factors had a strong correlation to quality performance in the sample:

#### 1 SIZE OF THE FIRM'S SINGLE AUDIT PRACTICE

Audits completed by firms that perform 11+ SA audits annually had a nonconformity rate of 15%, compared with 49% for firms performing 2 - 10 SA annually and 62% for firms performing 1 SA annually.

#### 2 MEMBERSHIP IN THE AICPA'S GOVERNMENTAL AUDIT QUALITY CENTER (GAQC)

58% of audits by non-GAQC member firms were nonconforming, compared to 32% nonconformity by GAQC member firms. Firms that both performed 11+ SA annually and GAQC members, the nonconformity rate dropped to zero.

Note: What does nonconformity mean? For a SA there are three sets of auditing standards: AICPA, Yellow Book (government auditing standards) and SA (Federal awards auditing standards). Auditors meet these standards by documenting in (endless) checklists that they know and have performed the required procedures under all standards. Further, any government agency can review the CPAs workpapers at any time for conformity, as can the Board of Accountancy under Peer Review.

#### 3 QUALIFICATIONS OF THE ENGAGEMENT PARTNER

Nonconformity rate of 25% noted in audits performed by an engagement partner who reviewed and signed 11+ SA annually. Nonconformity was 44% for engagement partners who perform 2 to 10 SA annually and 68% for engagement partners performing just 1 SA annually.

Nonconformity decreased when engagement partners had six+ years of experience, and had taken 9+ hours of SA specific CPE in the three years before the audit.

The AICPA Enhancing Audit Quality Initiative has the following recommendation to improve audit quality:



**CPA Exam:** Test analytical thinking in the CPA exam (accounting students take one college course in auditing – most is learned from the partner above you).

**Standards:** Improve the auditing stan-

dards and auditor ethics.

**CPE:** In WA, CPAs are required to take 120 hours Continuing Professional Education (CPE) every three years. The subject matter is at the individual's discretion and most has no required testing. CPE for SA auditors is 120 hours IN SINGLE AUDIT APPROVED CLASSES. It is now required to have an interactive learning-portion of any CPE class (class must participate). Additionally, three states require a learning-test after each class.

**Peer Review:** Step up the peer review process (there was a big brouhaha this year when it was discovered that CPAs performing Dept of Labor audits were not telling the peer reviewers of these audits. the Peer Reviewers request a list of all audits perform and "trust" the firms will provide a complete list for the sample testing).

**Firm monitoring:** Monitor firms on-line all the time, rather than every three years in peer review.

**Enforcement:** This means stripping CPAS of their license.



Martha and Gil Tran, Sr Policy Analyst with the Exec Office, OMB - sets Federal audit requirements and policies

## MANIPULATION—THE BACKBONE OF FRAUD

By Martha A Lindley CPA

How many times have I heard, “I trust my people”, “I would know”, “I am a good judge of character”? Dangerous territory and at the end of this article, I will tell you why.

### YOUR ATTENTION IS DEMANDED

The manipulators make themselves appear as victims, feign illness or create drama to create focus on them and their needs. Empathetic and nurturing people are drawn to this, making easy prey to this covert-aggressive behavior.

### YOUR FEELINGS DON'T MATTER

Manipulators tend to have little empathy for others. This lack of empathy or callous behavior is a personality trait that is consistent in dark personalities.

### YOU ARE ALWAYS SORRY

A manipulator avoids guilt and shifts the blame – and the punishment – onto you. They hold you responsible for their happiness and success and it's your fault if things don't go well.

### YOU FEEL ASHAMED

Manipulators will use your feelings of inadequacy to make you feel uncomfortable and inferior. Bringing up past mistakes is used to remind you of your incompetence.

### YOU GET LIED TO

Manipulators lie to protect themselves or deny their behavior. When caught in a lie, they downplay its significance.

### YOU WERE CHARMED

The manipulator may make you feel good with compliments, gifts and favors, learning your weaknesses.

### YOU GET THE SILENT TREATMENT

The silent treatment is another standard manipulation tactic. In manipulative relationships, this might happen in early stages, where the victim is still trying to learn how your weaknesses. Their ignoring you can breed desperation as you try to figure out what you did wrong and try to fix it.

### YOU TRUST PEOPLE



Trusting souls are very attractive to manipulators. Trust is an emotion, not a fact. When you “trust” people, in a business setting, you are manipulating yourself to abdicate your work responsibility of supervising and monitoring employees.

Most frauds are committed by long time employees, do not begin until some years of employment have passed, and last about two years before discovery.

**The number one way to prevent fraud is to supervise employees, monitor accounting transactions and review/approve work after completed.** In your personal life, trust whomever you like.

Protect employees (from allegations and suspicions of fraud) by establishing policies and procedures designed to safeguard money – coming in or going out.

Establish a fixed responsibility to a particular employee at any point in time, all the time.

Ensure proper segregation of duties - there are three functions – custody of assets, approving transactions and recording transactions – they should be by three persons – even if it is the front desk person or a board member.

Monitor financial activity and understand what you are reviewing and approving.

TECH CORNER

## Cloud QuickBooks Online

By Ryan F. Kauzlarich, Audit Manager

A few clients have been migrating from the traditional desktop version of QuickBooks to the online/cloud version. While it may feel like an online version of software should have all the functionality of a desktop version it is, unfortunately, not the case. Online/cloud QuickBooks has a very serious drawback in the report writing tool. Namely data-limitation. Here are the data limitations hidden deep within the online/cloud version of QuickBooks for displaying reports:

Display	Export to Excel
Maximum of 256 columns	Maximum of 256 columns
Maximum of 30,000 cells	Maximum of 50,000 cells
Maximum of 1.5 MG of data	Maximum of 2.5 MG of data

**INSIDE THIS ISSUE:**

<i>Single Auditors— all alike , right?</i>	<b>1</b>
<i>Is Lindley &amp; Associates your auditor?</i>	<b>2</b>
<i>Manipulation— the backbone of fraud</i>	<b>3</b>
<i>Tech Corner - Cloud Quick- Books On-line</i>	<b>3</b>
<i>Insert - Acctg for Contributions, Pledges &amp; More</i>	



The CPA. Never Underestimate The Value.®



**LINDLEY &  
ASSOCIATES LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

111 WEST HARRISON ST STE 200  
SEATTLE WA 98119-4286  
PHONE 206-332-0386  
WWW.LINDLEYCPAS.COM

We specialize in not for profit organizations and government funded entities. We are committed to those agencies that provide services to our community. Our services include, but are not limited to:

- Audit services: Not-for-profit financial statements.
- Government audits, including Single Audits under Uniform Guidance and Yellow Book (Governmental Auditing Standards).
- Tax services: Form 990 and Form 990 EZ preparation, including electronic filing.
- Financial statement reviews.
- Consulting, including compliance with federal, state and local funding agencies.

**We are now accepting Requests for Proposal.**

Lindley & Associates LLC newsletter is written by Martha Lindley CPA, providing timely articles for nonprofits. As a national speaker on nonprofit issues and Single Audit compliance, she personally writes and provides the quarterly newsletter to over 400 nonprofits as a contribution to our nonprofit community. Also available on-line at LindleyCPAS.com.



**LINDLEY &  
ASSOCIATES LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

111 WEST HARRISON ST STE 200  
SEATTLE WA 98119-4286  
PHONE 206-332-0386  
WWW.LINDLEYCPAS.COM