

COUNTY AUDITS AND ANNUAL FINANCIAL REPORTS

SOUTH CAROLINA ASSOCIATION OF COUNTIES

Institute of Government for County Officials
October 28, 2026 | 9:00 a.m. to 12:00 p.m.

PRESENTED BY: STEFFANIE DORN AND GRANT DAVIS



MJ
MAULDIN & JENKINS
CPAs & ADVISORS

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Learning Objectives and Roadmap

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- Explain what a financial statement audit does and does not do
- Navigate an ACFR or annual financial report
- Interpret key statements, notes, findings, and communications
- Identify questions county council should ask



PRACTICAL APPLICATION

Ask attendees to write down one question they want answered by noon.

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Opening Scenario: The January 1 Deadline

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- The audit is not complete
- A component unit has not provided information
- A federal grant schedule is still changing
 - Council asks: What should we do now?



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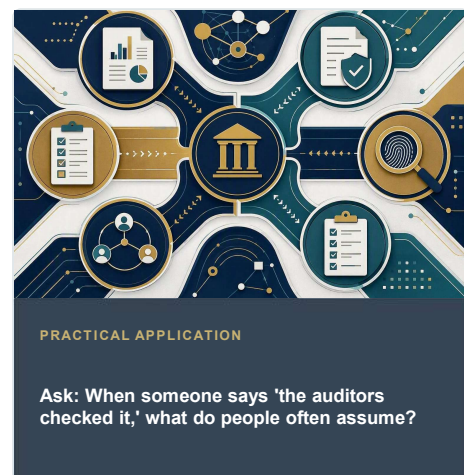
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What Is an Audit?

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- An independent examination of financial statements and related evidence
- Performed under professional standards
- Results in an opinion on whether statements are fairly presented
- Provides reasonable assurance, not absolute assurance



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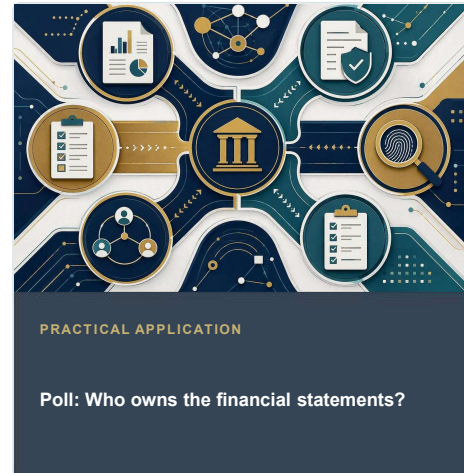
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What the Audit Accomplishes

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- Adds credibility to financial reporting
- Tests selected transactions, balances, estimates, and disclosures – risk based (judgment)
- Evaluates relevant internal control for audit planning
- Communicates significant issues to those charged with governance



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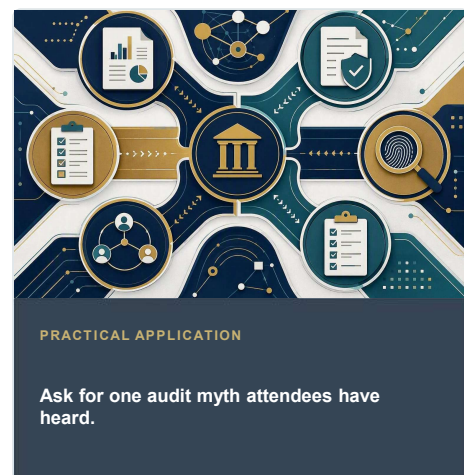
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What an Audit Does Not Guarantee

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- It does not examine every transaction
- It does not guarantee future financial health
- It does not guarantee compliance with every law or grant term
- Its primary objective is not to discover every fraud



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07 WHY COUNTIES ARE AUDITED

The Anatomy of the Annual Financial Report:

South Carolina law • Federal award requirements • Bond covenants and lenders • Grantors, rating agencies, citizens, and other users



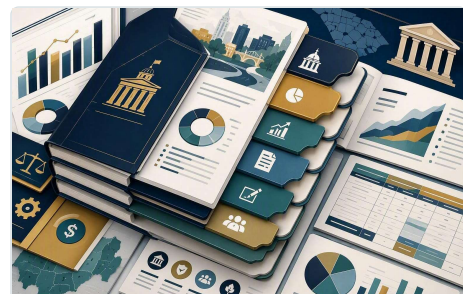
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Audit Opinion: Start Here

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- Unmodified: statements are fairly presented in all material respects in accordance with GAAP
 - Who establishes GAAP?
- Modified opinions: qualified, adverse, or disclaimer
- Read the basis paragraph and scope language
- Check whether component units are included or referenced



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Ask: Would an unmodified opinion mean the county has no control deficiencies?

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ACFR vs. Basic Financial Statements

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- ACFR adds context, history, and statistical information
- Financial section contains the audited core
- Introductory and statistical sections are generally unaudited
- A shorter annual financial report may still satisfy core reporting requirements



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Ask attendees which sections they currently use.

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Anatomy of an ACFR

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- Introductory section
- Independent auditor's report
- MD&A and basic financial statements
- Notes and required supplementary information
- Combining schedules and statistical section
- Compliance Section (GAS and Uniform Guidance reporting)
 - Schedule of Findings and Questioned Costs



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Two-minute scavenger hunt using a sample report.

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MD&A: The Executive Briefing

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- Objective, readable analysis for non-specialists
- Current-year versus prior-year perspective
- Explains why results changed, not merely how much
- Highlights capital, debt, budget variances, and currently known conditions



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Ask: What would make your county's MD&A more useful to council?

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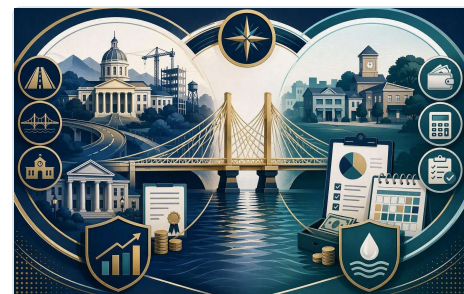
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Government-Wide Statements: The Long View

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- Economic resources measurement focus
- Full accrual basis
- Includes capital assets and long-term liabilities
- Separates governmental and business-type activities



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What changed most in net position, and why?

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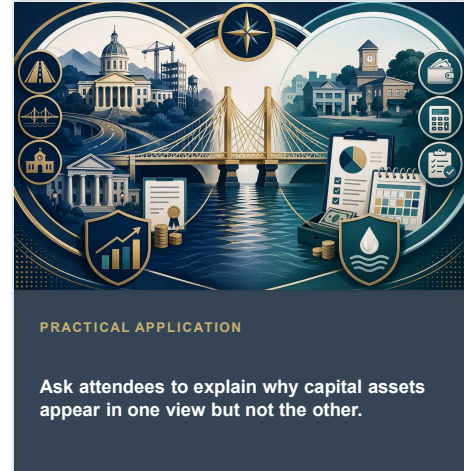
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Fund Statements: The Near-Term View

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- Governmental funds use modified accrual
- Focus on current financial resources
- Major funds shown separately
- Reconciliations connect fund and government-wide views



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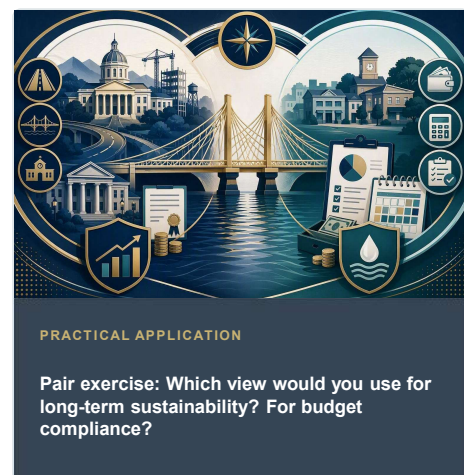
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Accrual vs. Modified Accrual

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- Accrual asks: What was earned or incurred?
- Modified accrual asks: What is available and measurable for current spending?
- Net position and fund balance answer different questions
- Reconciliations are the bridge



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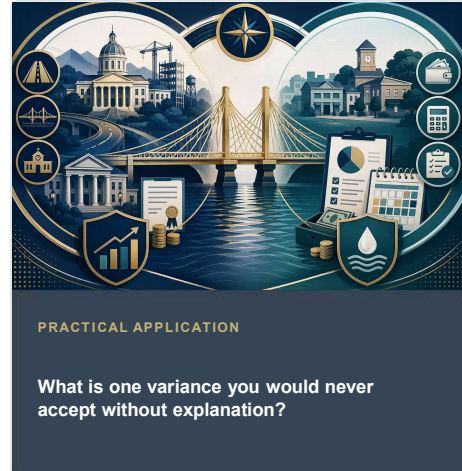
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Budgetary Information

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- Budget is the council's legally adopted financial plan
- Compare original, final, and actual amounts
- Investigate large amendments and recurring variances
- Audit procedures address the reported comparison, not policy wisdom



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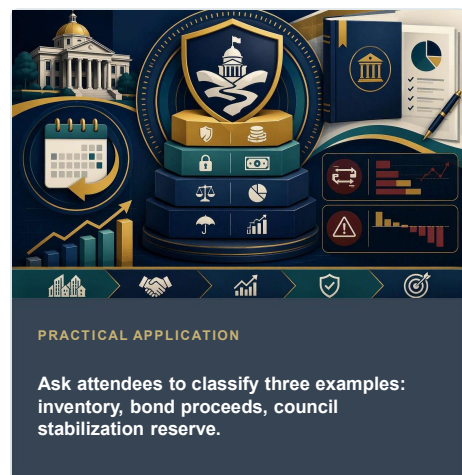
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Fund Balance: Labels Matter

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- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned
- Fund balance policy?



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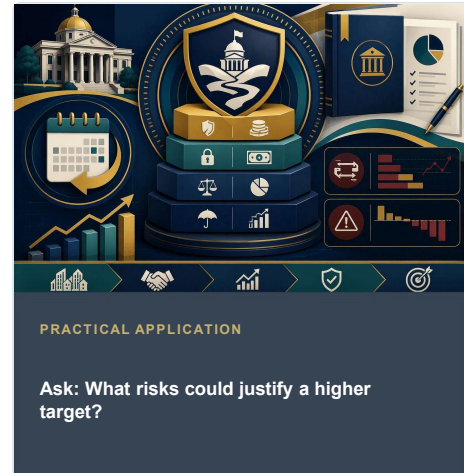
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Days of Unassigned Fund Balance

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- Convert a balance into an operating-capacity measure
- Use recurring General Fund expenditures as the denominator
- Compare with local policy and risk profile
- Trend and context matter more than a single benchmark



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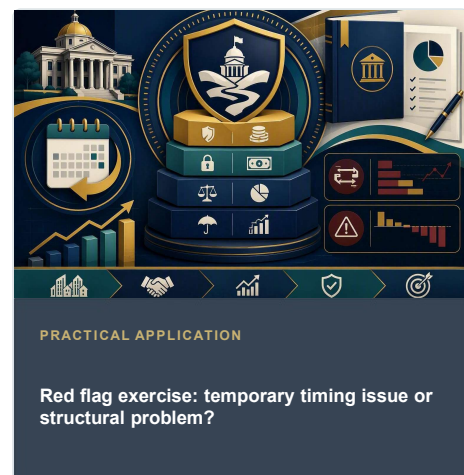
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Interfund Balances and Deficit Funds

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- Large due-to/due-from balances can signal cash strain
- Old balances may be hard to settle
- Deficit funds may require transfers or recovery plans
- Repeated General Fund support can mask structural issues



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19 BREAK

Return at the posted time • Write down one section of your county's report you want to understand better



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Notes to the Financial Statements: Where the Story Lives

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- Accounting policies and reporting entity
- Cash, investments, receivables, and capital assets
- Debt, leases, pensions, OPEB, commitments, and contingencies
- Details behind summarized statement amounts



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Which note has generated the most council questions in your county?

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Component Units

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- Legally separate organizations included because of financial accountability
- Blended or discretely presented
- Can affect opinion coverage and report timing
- Council should understand governance links and financial exposure



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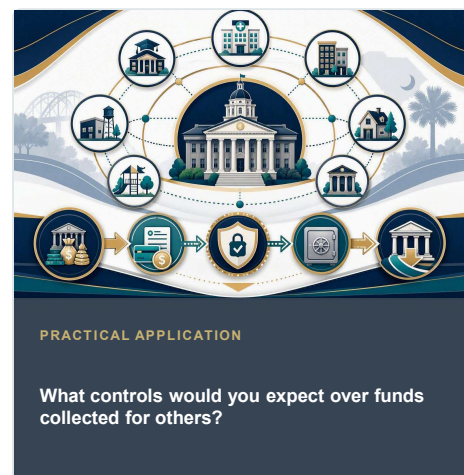
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Fiduciary Activities

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- Resources held for others, not available for county programs
- Reported in fiduciary funds when criteria are met
- Custodial activity can be operationally significant
- Focus on safeguarding, reconciliation, and timely remittance



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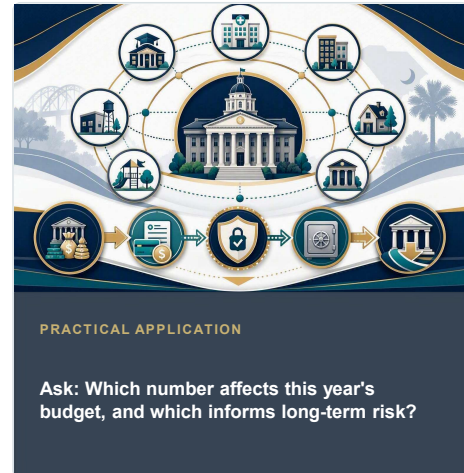
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Pensions and OPEB

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- Long-term promises measured using actuarial assumptions
- County statements may report proportionate shares of system liabilities
- Expense can differ from current cash contributions
- Focus on trend, funding policy, assumptions, and affordability



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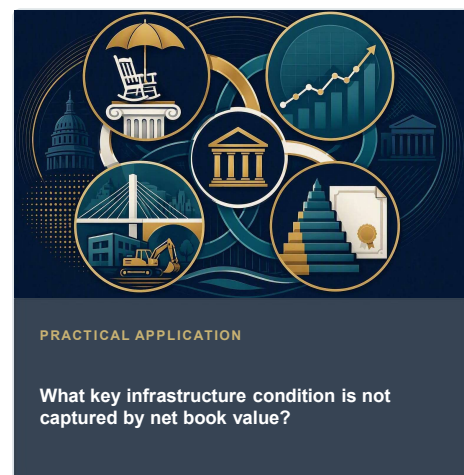
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Capital Assets and Infrastructure

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- What the county owns and uses to provide services
- Additions, disposals, depreciation, and construction in progress
- Deferred maintenance may not be obvious from the statements
- Connect the report to the capital improvement plan



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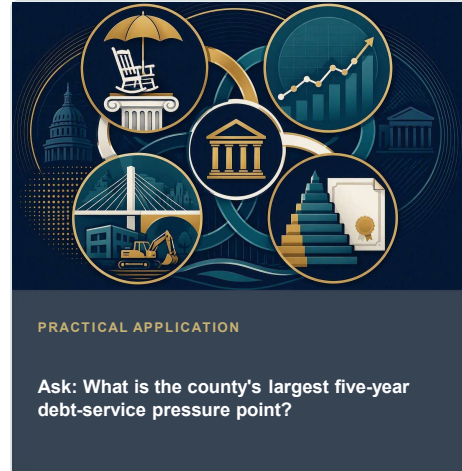
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Debt and Long-Term Obligations

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- Outstanding debt and repayment schedule
- Purpose and security of obligations
- Covenants, legal limits, and variable-rate exposure
- New debt, refundings, and future commitments



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Ask: What is the county's largest five-year debt-service pressure point?

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26 SINGLE AUDIT: WHEN FEDERAL AWARDS ADD ANOTHER LAYER

Triggered by federal awards expended, not merely received • Current federal threshold: \$1,000,000 or more • Includes financial-statement and major-program compliance work • Read the SEFA, findings, questioned costs, and corrective action plan



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Audit Findings: Not All Findings Mean the Same Thing

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- Financial reporting control deficiencies
- Material weakness versus significant deficiency
- Noncompliance and federal award findings
- Root cause and corrective action matter more than labels alone



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Other Required Audit Communications

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- Engagement letter defines scope and responsibilities
- Planning communication covers timing, risks, and approach
- Representation letter documents management assertions
- Conclusion communication addresses significant matters and adjustments



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Fraud: Audit Role vs. Governance Role

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- Auditors assess fraud risk and respond through audit procedures
- A financial statement audit is not a guarantee that fraud will be found
- Tips remain a leading detection method in occupational fraud studies
- Strong reporting channels and anti-retaliation practices matter
- 2026 ACFE Fraud Stats:
 - 55% identified by employees
 - 32% identified by customers and vendors
 - 3% by automation/data monitoring
 - 2% by external audit
 - 1% by confession



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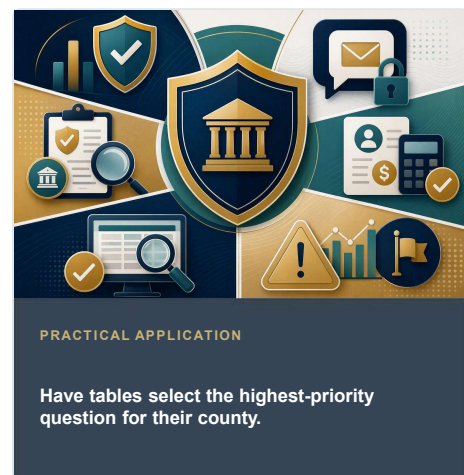
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Questions Elected Officials Should Ask About Fraud Risk

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- Where can one person initiate, approve, and conceal a transaction?
- How are vendors added or changed?
- Who reviews payroll changes, purchasing cards, and journal entries?
- How are tips received, investigated, escalated, and tracked?



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31 TIMELINESS IS PART OF FINANCIAL REPORTING QUALITY

Late information loses relevance • Delays often expose staffing, closing, system, or component-unit issues • Set milestone dates before year-end • Escalate obstacles early, not in December



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What Citizens Want to Know

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- Where did the money come from and where did it go?
- Did the county live within its plan?
- What changed in taxes, services, debt, and reserves?
- What risks and commitments carry into the future?



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A 10-Minute Reading Routine for Council

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- 1. Read the auditor's opinion
- 2. Scan MD&A for causes and known conditions
- 3. Review General Fund budget and fund balance
- 4. Check debt, pensions/OPEB, component units, findings, and Single Audit
- 5. Compare trends and ask what changed



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Mini Case Study: What Would You Ask?

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- General Fund unassigned balance fell from 90 to 55 days
- A capital projects fund has a recurring deficit
- A component unit is three months late
- The Single Audit repeats a procurement finding



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35 YEAR-ROUND GOVERNANCE CALENDAR

Before year-end: scope, risks, component units, federal awards • During fieldwork: status, obstacles, emerging findings • At completion: opinion, adjustments, findings, corrected misstatements • After issuance: corrective-action monitoring and public communication



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Key Takeaways

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- The opinion is the starting point, not the whole story
- Government-wide and fund statements answer different questions
- Notes, findings, and communications reveal risks and responsibilities
- Timely reporting and corrective action are governance issues
- Purpose of audit is fairly presented financial statements, not to detect fraud



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Ask attendees to write one action they will take.

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THANK YOU

QUESTIONS?

What remains unclear?
What issue is most difficult in your county?
What question will you ask at your next audit
presentation?



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