



Revolutionizing SLG Audits with Artificial Intelligence

The 360° Roadmap: Planning, Risk, Controls, Substantive Testing, & Reporting

EXECUTIVE SUMMARY

The Value Proposition

State & Local Governments face increasing complexity and static resources. AI transforms the audit from a "sample-based review" to "full-population assurance."

- ✓ **Depth:** 100% population testing across every ledger entry.
- ✓ **Efficiency:** reduction in manual vouching and footing.
- ✓ **Insights:** Identification of systemic control weaknesses.



Goal: Provide the Board and Citizens with the highest level of fiscal accountability through data-driven precision.

GAO AI FRAMEWORK

Consideration should be given to AI implementation using the four GAO accountability pillars:

- ✓ **Governance:** Clear roles for AI oversight and ethical use.
- ✓ **Data:** Ensuring representativeness and integrity of inputs.
- ✓ **Performance:** Validating model outputs for accuracy and bias.
- ✓ **Monitoring:** Continuous assessment of model reliability.

Regulatory Alignment

This roadmap is designed in developing a strong governance and use of AI

Phase I: Planning & Risk Assessment

Harnessing NLP for Preliminary Intelligence

AI REVIEW OF BOARD MINUTES

Identifying Hidden Impact

NLP models scan meeting minutes to flag keywords suggesting unrecorded financial impact:

- ✓ "Settlement," "Claim," "Litigation" → Contingent Liabilities.
- ✓ "Authorized issuance," "Bond," "Notes" → Debt Compliance.
- ✓ "Contract extension," "Lease renewal" → Disclosure Verification.

Q Planning Lift

Automated flagging allows auditors to focus on verifying management's accrual or disclosure decisions rather than manual reading.

PRELIMINARY ANALYTICAL PROCEDURES

Predictive Revenue Models

AI compares current year tax receipts to external economic benchmarks (CPI, regional sales data) to set materiality and risk expectations.

Variance Thresholds

Instead of arbitrary +/- 10% thresholds, AI identifies **statistical outliers** that deviate from seasonal and historical trends, focusing risk assessment on anomalies.

DYNAMIC ENTITY RISK PROFILING

Risk Assistance and Reporting!!!

AI aggregates departmental data and risks:

- ✓ Assist in risk evaluation (key factors noted and assumptions by auditor)
- ✓ Assist based on risk in identifying potential audit procedures
- ✓ Review WP's to determine sufficiency of coverage (risk consideration, assertion coverage based on risk, conclusions reached)
- ✓ Assist drafting audit findings



Phase II: Testing Controls

Electronic Approval & Segregation of Duties

CONTROL TESTING: DIGITAL APPROVALS

Analyzing Workflow Velocity

AI analyzes ERP system logs to identify ineffective controls:

- ✓ **Rubber-Stamping:** Approvals occurring in under 3 seconds after opening.
- ✓ **Out-of-Office Action:** Approvals granted while users were on FMLA or vacation leave.
- ✓ **Sequential Logic:** PO approvals occurring *after* invoice dates.



Goal: Determine if electronic controls are operating in *practice*, not just in the design document.

SEGREGATION OF DUTIES (SOD)

Execution vs. Permissions

Traditional audits test "who has access." AI tests "who performed conflicting actions."

AI identifies users who:

- Created a vendor AND authorized a payment.
- Modified payroll record AND approved the run.

Identifying Privilege Creep

- ✓ Continuous monitoring of user IDs across HR and Finance modules.
- ✓ Flagging shared credentials or concurrent logins from disparate IP addresses.



Phase III: Substantive Testing

100% Population Review & Recalculations

JOURNAL ENTRY TESTING (JET)

Fraud Outlier Detection

AI scores every manual entry for risk based on:

- ✓ Round numbers in unusual account pairings.
- ✓ Entries made at 2 AM or on major holidays.
- ✓ Key account reversals just before fiscal year-end.

Efficiency

Auditors review only the top 1% of high-risk entries rather than a random sample of 60 items.

FIXED ASSETS : RECALCULATIONS

Depreciation Precision

AI recalculates the useful life and current-year expense for every asset in the ledger.

Asset ID	System Calc	AI Recalc	Variance
V-102	\$4,500	\$4,500	\$0
B-205	\$12,000	\$15,500	(\$3,500)



Ensures GASB 34 compliance across massive i datasets without manual calculation fatigue.

GASB 87: LEASE SCANNING

Identifying Embedded Leases

AI scans legal contracts and service agreements to identify

"Right to Use" clauses:

- ✓ Lease term extraction (dates/renewals).
- ✓ Payment schedule identification.
- ✓ Implicit interest rate extraction.

Human Reference

AI highlights the exact paragraph for auditor verification, accelerating reporting of the Lease Liability.

GASB 96: SBITA VERIFICATION

Subscription-Based IT Arrangements

Scanning vendor contracts to distinguish between service expenses and capitalized SBITA assets.

- ✓ Automated threshold testing (Capitalization limit).
- ✓ Categorization of implementation vs. operation costs.



Ensures reporting accuracy for complex software-as-a-service (SaaS) government contracts.

PENSION/OPEB: CENSUS DATA

Reconciling the actuary's dataset to source HR/Payroll records for GASB 68/75.

Census Field	Logic Validation	AI Flag
Date of Birth	Verify vs. Hire Date vs. prior year	✓ Valid
Current Salary	Yearly Increase > 30%	! Outlier
Status	Compare to Payroll status	✓ Valid
Termination Date	Present in HR but not Census	! Missing

CENSUS ROLL-FORWARD ANALYSIS

Reconciling the "Delta"

AI automates the transition from Prior Year (PY) to Current Year (CY):

- ✓ **Additions:** Cross-check vs. CY new hire report.
- ✓ **Removals:** Verify vs. CY termination report.
- ✓ **Status:** Tracking shifts from "Active" to "Retired."

Defensibility

Provides 100% evidence that the population used by the actuary is complete and accurate.

AP & DISBURSEMENT TESTING

Duplicate Detection

AI scans for identical amounts and vendor names with slightly different formatting (e.g., "Main St" vs "Main Street").

- ✓ **Vouching:** Automated matching of Invoice to PO to Shipping Receipt.



Identifies potential vendor fraud or clerical error at the source.

PAYROLL & PERSONNEL ANALYTICS

Ghost Employees

AI compares payroll addresses to employee records and identifies duplicates or addresses that are PO Boxes/commercial properties.

Overtime Anomalies

Flagging personnel with overtime payouts exceeding 50% of base pay for additional documentation and approval review.



Phase IV: Federal Single Audit

Automated Compliance for 2 CFR 200

SEFA COMPLETENESS TESTING

Expenditure Mapping

AI reconciles the Schedule of Expenditures of Federal Awards (SEFA) to the General Ledger by AL Number.

- ✓ Automatic detection of expenditures coded to the wrong grant.
- ✓ Verification of grant ID to the federal award document.
- ✓ Review SEFA for appropriate reporting in accordance with 2 CFR 200 part F (also review ALN to Name, Clusters – Part 5)



Reduces the risk of major program misidentification and SEFA presentation.

SUSPENSION & DEBARMENT

SAM.gov Automation

Continuous sweep of 100% of the vendor list against the Federal SAM.gov exclusion database.

Identifying Forbidden Parties

- ✓ Fuzzy matching for vendor name variations.
- ✓ Audit trail creation for monthly compliance checks for recipients.

AUTOMATED ELIGIBILITY TESTING

Program Recipient Scrutiny

AI parses 100% of beneficiary applications (Disaster aid, SNAP, TRIO, Housing) to verify:

- ✓ **Income:** Cross-check vs. tax data/income data.
- ✓ **Identity:** PII verification.
- ✓ **Residency:** Tax/utility record match.

Efficiency

Auditors review only the "Red Flag" exceptions, increasing coverage from 60 items to thousands.

PROCUREMENT & BIDDING RISKS

Split Purchases

AI identifies sequences of small purchases from the same vendor that aggregate above the micro-purchase bidding threshold.

Competitive Integrity

- ✓ Flagging sole-source contracts without technical justification.
- ✓ Verification of "Three Quote" documentation presence.

SUBRECIPIENT CONTRACT REVIEW

AI scans subrecipient agreements for the 14+ mandatory elements of 2 CFR 200.332:

- ✓ Assistance Listing Number.
- ✓ Indirect Cost Rate identification.
- ✓ Federal Award Date alignment.
- ✓ Subrecipient determination.

Automated "Presence/Absence" check across hundreds of sub-awards.

Phase V: Final Reporting Review

Checklist Automation & Narrative Consistency

ACFR MATHEMATICAL INTEGRITY

Automated Tie-ins

AI instantly verifies the mathematical accuracy of the entire ACFR:

- ✓ **Footing:** Vertical sum verification.
- ✓ **Crossfooting:** Horizontal verification across funds.
- ✓ **Notes Tie-in:** Ensuring Note values match the face of the FS.



Eliminates human error in the most complex consolidation schedules.

MD&A NARRATIVE ANALYSIS

Narrative vs. Data

AI compares the "Manager's Discussion and Analysis" against the actual results to flag contradictions or overly optimistic narratives not supported by the numbers.

Tone Analysis

Reviewing for consistency in the message provided to citizens vs. the underlying fiscal reality.

CHECKLIST & GFOA AUTOMATION

Certificate of Achievement

Automated mapping of the ACFR against the GFOA "Certificate of Achievement" checklist to identify missing components or formatting errors.



Ensures zero "low-hanging fruit" comments from reviewers.

RSI DISCLOSURE CONSISTENCY

Required Supplementary Info

Verifying that RSI (Pension schedules, OPEB data) is internally consistent with the Primary Financial Statements.

AI identifies trends in the statistical section that may require additional management explanation in the MD&A.

Governance, Ethics, & Security

Ensuring Public Trust in AI Outputs

DATA SECURITY & SOVEREIGNTY

Government Cloud Standards

Ensuring AI processing occurs in secure cloud environments.

- ✓ PII Redaction before processing.
- ✓ Encryption of audit evidence.



Consider and verify setup ensures compliance with FERPA, HIPAA, GLBA, etc.

STRATEGIC ROADMAP (24 MONTHS)

- ✓ **Months 1-6:** Inventory manual tasks; pilot JET and Lease scanning.
- ✓ **Months 6-12:** Deploy full population testing for Fixed Assets and Payroll.
- ✓ **Months 12-24:** Integrate Census and Single Audit compliance automations.

Reskilling the Team

Auditors transition from "Data Entry" to "Data Interpretation" and "Prompt Engineering."

Maybe some Examples