

# THE NEW APPROACH to Financial Accounting, Auditing, and Reporting Risk Analysis Audit Procedures and Findings

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## Definitions

Audit Month – Month currently being subjected to Risk Analysis audit

Prior Month – Month immediately prior to the audit month

Random Month – Month randomly selected for special testing

WPs – Audit Working Papers (audit documentation)

YTD – Year to Date

MTF – Memo to File

## Startup Procedures

Note: Before startup procedures can begin, the entire month-end reconciliation process must have been completed by the accounting department.

- **Step 1.** Pull Prior Month's WPs.
- **Step 2.** Pull Random Month's WPs.
- **Step 3.** Obtain Audit Month-End bank statements for all bank accounts from a source independent of the accounting department, preferably directly from bank.
- **Step 4.** Obtain a copy of the Audit Month-End Payroll Clearing Fund Reconciliation from the accounting department.
- **Step 5.** Obtain a copy of the Expenditure Approval Report(s) approved by the oversight body during the Audit Month from the accounting department.
- **Step 6.** Obtain a copy of the MTFs dated in the Audit Month from the accounting department.
- **Step 7.** Obtain a copy of the officially approved employee rates of pay.
- **Step 8.** Back Up Database File. Before you start, ask the accounting department to create a compressed backup copy of the database (zip file). Note the date and time the backup was created and ask the accounting department to save the backup as part of its normal backup procedures.

## Create and Assemble Working Papers

**Important:** Access to the accounting records is, for the most part, restricted to the accounting department. For this reason, the Risk Analysis auditor should schedule a time to meet with the accounting department to have the following reports created for the auditor, and in his or her presence. **As the reports are being printed, the auditor should initial and date them, and label them for easier identification later.**

- **Banking Reports:**

**Report BK1.** Print Audit Month-End reconciliation for all bank accounts (Banking/Bank Reconciliation).

**Report BK2.** Print Random Month-End reconciliation for one or more bank accounts (Banking/Bank Reconciliation).

**Report BK3.** Print Audit Month-End composition of cash (Banking/Composition of Cash).

- **Budgetary Accounting Reports:**

**Report BA1.** Print Audit Month-End Cash Basis Fund Summary (BA/Reports/Fund Summary (Monthly Statements)). Print Year-to-Date only.

**Report BA2.** Print Audit Month-End Budgetary Basis Fund Summary (BA/Reports/Fund Summary (Monthly Statements)). Print Year-to-Date only.

**Report BA3.** Print Expenditure Approval Report(s) approved by the oversight body during the Audit Month (BA/Reports/Expenditure Approval Report).

- **Payroll Reports:**

**Report PR1.** Review the Audit Month-End Payroll Clearing Fund Reconciliation.

**Report PR2.** Print the Audit Month-End Payroll Clearing Fund cash disbursements (BA/Reports/Cash Disbursements Report). Enter the date range for the Audit Month-End, select the Payroll Clearing Fund, and click on Print Detail.

**Report PR3.** Print the monthly report of Payroll benefits and deductions for the Audit Month (PR/Reports/Payroll Benefits and Deductions Report). Select the Audit Month, select By Remittance Vendor, click on Select All, and click on Print Summary.

- **Accounts Receivable Reports:**

**Report AR1.** Print Audit Month-End Monthly Accounts Receivable Summary Report (AR/Reports/Monthly Accounts Receivable Summary).

**Report AR2.** Print Audit Month-End Customer Payment Allocations by Fund (AR/Reports/Monthly Customer Payment Reconciliation). Click on Customer Payments → BA Cash Receipts.

**Report AR3.** Print Audit Month-End Reconciliation of Customer Payments to OTC Cash Receipts (AR/Reports/Monthly Customer Payment Reconciliation). Click on Customer Payments → OTC Cash Receipts.

Note: This report is intended to display ONLY variances. If there are no variances, which is what you would hope for, the report will be blank.

**Report AR4.** Print Audit Month-End Monthly Customer Deposits Summary Report (AR/Reports/Monthly Customer Deposits Summary).

**Report AR5.** Print Audit Month-End Monthly Billing Adjustments Report (AR/Reports/Monthly Billing Adjustments Report).

**Report AR6.** Print Audit Month-End Monthly Billings By Utility Report (AR/Reports/Billings By Utility Report). Click on Print Summary.

- **Other Reports:**

**Report OT1.** Print the Audit Month-End Cash Disbursements Report (BA/Inquiries/Checks). Enter the date range for the Audit Month-End, sort by date, click on Update Listing, and click on Print Summary.

**Report OT2.** Print the Audit Month-End Cash Disbursements Report (BA/Inquiries/Checks). Enter the date range for the Audit Month-End, sort by amount, click on Update Listing, and click on Print Summary. Review vendors and amounts for reasonableness. To get exact payment detail you can click on Print Detail for a selected item. Set your focus on:

- 1) Higher dollar amounts starting from the bottom of the listing.
- 2) Payments that are paid based on a statement rather than an invoice, such as a credit card payment.

**Report OT3.** Print an expenditure report for the Audit Month that identifies specific types of payments that are likely recurring (e.g., monthly, quarterly, annually), such as rental payments, lease payments, principal and interest payments, etc. (BA/Reports/Budgetary Expenditure Detail By Fund). Enter the date range for the Audit Month, select a specific object code such as rents, lease payments, or loan principal, and click on Print Summary. To get exact payment detail you can click on Print Detail.

**Report OT4.** Print the Audit Month-End Cash Receipt Adjustments Report (BA/Inquiries/Cash Receipt Adjustments). Enter the date range for the Audit Month-End, sort by date, click on Update Listing, and click on Print Report.

**Report OT5.** Print the Audit Month-End Expenditure Adjustments Report (BA/Inquiries/Expenditure Adjustments). Enter the date range for the Audit Month-End, sort by date, click on Update Listing, and click on Print Report.

**Report OT6.** Print a monthly payroll report Gross Pay By Pay Type (PR/Reports/Gross Pay By Pay Type). Enter the date range for the Audit Month-End, group by employee, click on Print Detail. Randomly select one or more employees for testing.

**Procedure OT7.** Ask the accounting department to show you the backup copies of the database files.

## Risk Analysis Audit Findings - Month Ended \_\_\_\_\_

### Banking Audit Findings

- **Report BK1.** Audit Month-End reconciliation for all bank accounts.

Y\_\_ N\_\_ Q A (★★★★★). Does the bank balance per bank statement on reconciliation agree with the bank statement for all bank accounts?

Y\_\_ N\_\_ Q B (★★★★★). Does the reconciliation indicate the bank account is reconciled for all bank accounts?

- **Report BK2.** Random Month-End reconciliation for one or more bank accounts.

Y\_\_ N\_\_ Q A (★★★★★). Does the reconciliation agree from top to bottom with the original (WPs) reconciliation on file?

- **Report BK3.** Audit Month-End composition of cash.

Compare investments in Audit Month-End report to investments in Prior Month-End report on file.

New investments (in Audit Month-End report and not in Prior Month-End report) should be tied to independently obtained bank statements.

Redeemed investments (not in Audit Month-End report and in Prior Month-End report) should be tied to a new investment (per independently obtained bank statements) or a bank account deposit (per independently obtained bank statements).

Y\_\_ N\_\_ Q A (★★★★★). Are all changes to investments in the composition of cash compared to the prior month adequately explained?

### Budgetary Accounting Audit Findings

- **Report BA1.** Audit Month-End Cash Basis Fund Summary.

Y\_\_ N\_\_ Q A (★★★★★). Does the total for the column labeled Ending Cash equal the Composition of Cash total at the bottom of the report?

Y\_\_ N\_\_ Q B (★★★★★). Does the Composition of Cash total at the bottom of the report (Report BA1) equal the Composition of Cash total in the more detailed report printed under Banking Procedures (Report BK3)?

Y\_\_ N\_\_ Q C (★★★★★). Does this financial statement agree with the same statement provided to the oversight body at their meeting?

- **Report BA2.** Audit Month-End Budgetary Basis Fund Summary.

Y\_\_ N\_\_ Q A (★★★★★). Does the Ending Unencumbered Cash total in the "cash basis" Fund Summary report (Report BA1) equal the Ending Unencumbered Cash total in the "budgetary basis" Fund Summary report (Report BA2)?

- **Report BA3.** Expenditure Approval Report(s) approved by the oversight body during the Audit Month.

Y\_\_ N\_\_ Q A (★★★★★). Does the printed report agree with the report(s) approved by the oversight body during the Audit Month (Refer to Startup Procedures Step 5)?

### Payroll Audit Findings

- **Report PR1.** Audit Month-End Payroll Clearing Fund Reconciliation.

Y\_\_ N\_\_ Q A (★★★★★). Does the beginning cash balance equal the ending cash balance on the prior month Payroll Clearing Fund Reconciliation?

Y\_\_ N\_\_ Q B (★★★★★). Does the ending cash balance on the Payroll Clearing Fund Reconciliation equal the ending cash balance for the Payroll Clearing Fund on the Audit Month-End Cash Basis Fund Summary (Refer to Budgetary Accounting Report BA1).

Y\_\_ N\_\_ Q C (★★★). Do the month-end unpaid remittances appear reasonable?

- **Report PR2.** Audit Month-End Payroll Clearing Fund cash disbursements.

Y\_\_ N\_\_ Q A (★★★). Are the unpaid remittances on the prior month Payroll Clearing Fund Reconciliation included in the cash disbursements report? If not, is there a reasonable explanation?

Y\_\_ N\_\_ Q B (★★★★★). Can the payroll remittance payments be traced to the bank statement?

- **Report PR3.** Monthly report of Payroll benefits and deductions for the Audit Month.

Y\_\_ N\_\_ Q A (★★★). Can the payroll remittance payments (Refer to Payroll Report PR2) be tied to the monthly report of Payroll benefits and deductions for the Audit Month?

### Accounts Receivable Audit Findings

- **Report AR1.** Audit Month-End Monthly Accounts Receivable Summary Report.

Y\_\_ N\_\_ Q A (★★★★★). Does the beginning unpaid balance total for the YTD equal the ending unpaid balance at the end of the prior budget year? Note: The YTD beginning unpaid balance total should not change during the year.

Y\_\_ N\_\_ Q B (★★★★★). Does the beginning unpaid balance total for the month equal the ending unpaid balance at the end of the prior month?

- **Report AR2.** Audit Month-End Customer Payment Allocations by Fund.

Y\_\_ N\_\_ Q A (★★★★★). Does the customer payment amount allocated to customer account balances equal the AR summary report customer payment amount (Refer to Accounts Receivable Report AR1)?

- **Report AR3.** Audit Month-End Reconciliation of Customer Payments to OTC Cash Receipts.

Y\_\_ N\_\_ Q A (★★★★★). If variances exist, is there a MTF explaining the variances?

- **Report AR4.** Audit Month-End Monthly Customer Deposits Summary Report.

Y\_\_ N\_\_ Q A (★★★★★). Does the beginning balance total for the YTD equal the ending balance at the end of the prior budget year? Note: The YTD beginning balance total should not change during the year.

Y\_\_ N\_\_ Q B (★★★★★). Does the beginning balance total for the month equal the ending balance at the end of the prior month?

Y\_\_ N\_\_ Q C (★★★★★). Does the ending balance total for the YTD (and month) equal the ending cash balance for the Customer Deposit Clearing Fund (Refer to Budgetary Accounting Report BA1)?

Y\_\_ N\_\_ Q D (★★★★★). Does the "Overpayment" deposits total for the month equal the deposit clearing fund total on the Customer Payment Allocations By Fund (Refer to Accounts Receivable Report AR2)? Note:

Y\_\_ N\_\_ Q E (★★★★★). Do the customer "Overpayment" refunds for the month equal the customer deposit payments (i.e., Customer Deposits Applied as Payments) on the Monthly Accounts Receivable Summary Report (Refer to Accounts Receivable Report AR1)?

- **Report AR5.** Audit Month-End Monthly Billing Adjustments Report.

Y\_\_ N\_\_ Q A (★★★★★). Does the "Credit Adjustments" column total for the month equal the Billing Adjustment Payments (i.e., Billing Adjustments Applied as Payments) on the Monthly Accounts Receivable Summary Report (Refer to Accounts Receivable Report AR1)?

- **Report AR6.** Audit Month-End Monthly Billings By Utility Report.

Y\_\_ N\_\_ Q A (★★★★★). Do the billing totals for each utility equal the same monthly amounts in the Monthly Accounts Receivable Summary Report (Refer to Accounts Receivable Report AR1)?

### Other Audit Findings

- **Report OT1.** Audit Month-End Cash Disbursements Report.

Y\_\_ N\_\_ Q A (★★★★★). Can all **paycheck** recipients be verified as employees?

Y\_\_ N\_\_ Q B (★★★★★). Do all **paycheck** amounts meet the reasonableness test (i.e., are they in the ball park)?

- **Report OT2.** Audit Month-End Cash Disbursements Report. Review vendors and amounts for reasonableness. Focus on the higher dollar amounts starting from the bottom of the listing and payments based on a statement such as credit card payments.

**Y\_\_ N\_\_ Q A (★★★★).** Can all vendors be verified? If not, ask accounting department for specific invoices that should have address and contact information. Investigate if warranted. It is not unreasonable to randomly select a few checks each month for automatic testing. Who placed the order? What was purchased? Who verified the receipt of the goods or services being paid for? Who approved the invoice for payment? Can the vendor's physical existence be verified somehow?

- **Report OT3.** Expenditure report for the Audit Month that identifies specific types of payments that are likely recurring (e.g., monthly, quarterly, annually), such as rental payments, lease payments, principal and interest payments, etc.

**Y\_\_ N\_\_ Q A (★★★★).** Can the payment(s) be traced to a contractual agreement?

**Y\_\_ N\_\_ Q B (★★★★).** Can the vendor be verified?

- **Report OT4.** Audit Month-End Cash Receipt Adjustments Report.

**Y\_\_ N\_\_ Q A (★★★).** Do the cash receipt adjustments appear to be reasonable?

- **Report OT5.** Audit Month-End Expenditure Adjustments Report.

**Y\_\_ N\_\_ Q A (★★★).** Do the expenditure adjustments appear to be reasonable?

- **Report OT6.** Monthly payroll report Gross Pay By Pay Type. Randomly select one or more employees for testing.

**Y\_\_ N\_\_ Q A (★★★★).** Can the Units (Hours) be traced to a timesheet?

**Y\_\_ N\_\_ Q B (★★★★★).** Does the Gross Pay equal the Units (Hours) times the official rate of pay?

- **Procedure OT7.** Backup copies of the database files.

**Y\_\_ N\_\_ Q A (★★★★★).** Are daily backups being created at the end of each day?