Audit Report

Systems for Grant Management Audit June 12, 2015

A Report to the Galveston City Council

Mayor
Jim Yarbrough

Council Members
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Report Summary

The City Auditor Department evaluated the design and operating effectiveness of the three objectives of internal control over grant compliance Appendix 1 – Administrative Controls Checklist, Appendix 2 – Accounting Controls Checklist, and Appendix 3 – Financial Reporting Controls Checklist. Each internal control listed in the spreadsheets was then evaluated to determine if the control design and operations of the control proved to be effective over grant compliance at the City of Galveston. The City Auditor Department also noted if opportunities exist for the improvement of those internal controls. The City Auditor has no findings to report to The Mayor and The City Council for The City of Galveston. However, the City Auditor Department did note several internal controls where opportunities do exist for improvement over grant compliance in the attached appendices. The City Auditor Department will make itself available to consult with the Finance Department should management choose to act upon improving those internal controls for grant compliance at the City of Galveston.

SYSTEM FOR GRANTS MANAGEMENT AUDIT
CITY AUDITOR

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City of Galveston
System for Grants Management – Finance Department
City Auditor Executive Summary

June 12, 2015

Background

An organization can ensure that its accounting and financial management system satisfies all applicable compliance requirements if it has adequate internal control policies and procedures in place. There are a number of sources for guidance of an internal control framework that the Finance Department should be familiar with. The manager of each grant is charged with establishing the internal control framework for each grant. In turn, the City Auditor Department is responsible for evaluating the design and operating effectiveness of those internal controls over grant compliance.

Objective

The objective of this report is to evaluate the design and operating effectiveness of the Finance Department's internal control framework over grant compliance relating to (1) accounting for and reporting transactions, (2)executing transactions, and (3)safeguarding assets. These objectives are further described below as:

(1)Accounting and Reporting - The objectives of internal controls over accounting and reporting are to ensure that transactions are properly recorded and accounted for to do the following:

a) Permit the preparation of reliable financial statements and grant reports.

b) Maintain accountability over assets.

c) Demonstrate compliance with federal/state laws, regulations, and other grant compliance requirements.

(2)Executing Transactions - The objectives of internal controls over executing transactions are to ensure that transactions are executed in compliance with the following:

a) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program.

b) Any other federal or state laws and regulations that are identified in the OMB Circular A-133 Compliance Supplement.

(3)Safeguarding Assets - The objective of internal controls over safeguarding assets is to ensure that funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

City of Galveston
System for Grants Management – Finance Department
City Auditor Executive Summary

Scope

To evaluate the design and operating effectiveness of the three objectives of internal control over grant compliance the City Auditor Department identified and evaluated the basic components of each objective for the City of Galveston as described in the supplemental appendices and below:

(1)Administrative

a) Control Environment - The City of Galveston's control environment establishes the tone of an organization that influences the control consciousness of its personnel.

b) Risk Assessment - Risk assessment is the City of Galveston's identification and analysis of relevant risks to achieving the organization's objectives.

c) Control Activities – The City of Galveston's control activities are the policies and procedures that are performed by personnel that help ensure that management's directives regarding compliance are carried out.

d) Information and Communication - The information and communication component includes the City of Galveston's identification, capture, and exchange of information in a form and time frame that enable personnel to carry out their responsibilities.

e) Monitoring Activities - Monitoring activities access the City of Galveston's quality of internal control performance over time.

(2)Accounting

a) Rights and Obligations – All account balances properly reflect amounts owed to the City of Galveston or amounts the City of Galveston owes to others.

b) Valuation and Allocation – All account balances reflect what the grantor agency can reasonably expect to receive or pay to/from the City of Galveston.

c) Occurrence – All transactions or events occurred within the City of Galveston.

d) Completeness – All transactions or events have been captured by the City of Galveston.

e) Accuracy – All transactions or events have been accurately recorded by the City of Galveston.

f) Cut-off – All transactions or events are recorded by the City of Galveston in the correct accounting period.

g) Classification – All transactions or events are correctly classified by the City of Galveston.

(3)Reporting

a) Defining the Grant Financial Reporting Process for the City of Galveston.

b) Capturing and Processing Nonroutine Grant Information for the City of Galveston.

c) Preparing and Reviewing Grant Disclosures for the City of Galveston.

d) Reviewing and Approving Grant Program Financial Reports or the Schedule of Expenditures of Federal and/or State Awards for the City of Galveston.

Fieldwork Performed

The City Auditor Department researched all known internal controls for a grants division within a local municipality and listed each internal control in three separate spreadsheets described and attached as Appendix 1 – Administrative Controls Checklist, Appendix 2 – Accounting Controls Checklist, and Appendix 3 – Financial Reporting Controls Checklist. Each internal control listed in the spreadsheets was then evaluated to determine if the control design and operations of the control proved to be effective over grant compliance at the City of Galveston. The City Auditor Department also noted if opportunities exist for the improvement of those internal controls.

Audit Findings

There are no findings for the City Auditor to report to The Mayor and The City Council for The City of Galveston. However, the City Auditor Department did note several internal controls where opportunities do exist for improvement over grant compliance in the attached appendices. The City Auditor Department will make itself available to consult with the Finance Department should management choose to act upon improving those internal controls for grant compliance at the City of Galveston.

Staff Conduct

All staff acted in a professional and timely manner.

City Manager's Response

Appendix 1: Grants Management Administrative Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
A—Activities Allowed or Unallowed, and B—Allowable Costs/Cost Principles		
Control Objectives. To provide reasonable assurance that grant awards are expended only for allowable activities and that the cost of goods and services charged to grant awards are allowable and in accordance with the specific cost principles.		
1. Control Environment. Policies and procedures are in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control. Items a. - h. below should be in writing.		
a. Management sets reasonable and timely budgets for programs to minimize incentives to miscode expenditures.	X	X
b. Management takes appropriate action for known departures from approved policies.	X	
c. Management documents enforcement of appropriate penalties for misappropriation or misuse of funds.	X	
d. Questioned costs are resolved and documented on a timely basis.	X	
e. An organization-wide policy of who is held accountable for misappropriation or misuse of funds.	X	
f. A list of allowable and unallowable expenditures for approving and pre-auditing expenditures.	X	
g. An indirect cost allocation plan been prepared and approved by management, when applicable.	X	
h. When applicable, the indirect cost allocation plan has been submitted to the cognizant (or oversight) agency for indirect cost rate negotiation.	X	

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2. Risk Assessment. Policies and procedures are in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives. Items a. - b. below should be in writing.		
a. Management assess risks to the accounting and reporting system including the cost accounting systems. Management documents any actions taken to reduce the risk identified to an acceptable level.	X	
b. Management documents their understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a grant program and not be detected.	X	
3. Control Activlties. Policies and procedures are in place to provide reasonable assurance that grant awards are expended only for allowable activities and that the cost of goods and services charged to grant awards are allowable and in accordance with the specific cost principles. Items a. - j. below should be in writing.		
a. Documentation is in place that provides reasonable assurance that consistent treatment is applied in the distribution of charges as direct and indirect costs to all grant programs.	X	
b. Documentation is in place to provide separate accountability for costs between program and non-program activities.	X	
c. Documentation of notification is in place to ensure timely updating of procedures for changes in activities allowed and cost principles?	X	X
d. Written personnel policies covering job descriptions, hiring, promotions, and dismissals.	X	X
e. Written documentation proving the checking of the accuracy of computations.	X	

Appendix 1: Grants Management Administrative Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
f. Proof that supporting documentation is compared to a list of allowable and unallowable expenditures.	X	
g. A separate file is maintained for adjustments for unallowable costs made and the follow-up action taken to determine the cause	X	
h. Flowcharts are available documenting adequately segregation between review and authorization of costs.	X	
i. Documentation that payments are approved by an authorized and knowledgeable individual.	X	
j. Accountability for authorization is fixed in an individual(s) who is knowledgeable of the requirements for determining activities allowed and allowable costs, including costs charged to direct and indirect cost centers, in accordance with grant program agreements and applicable governmental management circulars pertaining to cost principles.	X	
4. Information and Communication. Policies and procedures are in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities. Items a. - g. below should be in writing.		
a. Reports such as a comparison of budget to actual are obtained so as to prove appropriate management review was done on a timely basis.	X	
b. Separate flies are maintained for internal and external communication that serve as documentation for allowing activities and costs that been established.	X	X
c. Written documentation that management and staff interact regarding questionable costs.	X	
d. Written policies that encourage employees to report suspected improprieties to management.	X	
e. Documentation that training programs, both formal and informal, provide		

Appendix 1: Grants Management Administrative Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
knowledge and skills necessary to determine activities and costs allowed.	X	X
f. Flowcharts documenting program information from grantor and other agencies flow to appropriate program management personnel.	X	
g. Copies of grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars are maintained by staff responsible for determining activities allowed and allowable costs under programs?	X	X
5. Monitoring. Policies and procedures are in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed. Items a. - f. below should be in writing.		
a. Documentation that management periodically reviews evidence of allowable cost information.	X	
b. Documentation that management compares budgeted and actual allowable costs and are variances investigated.	X	
c. Documentation that other analytical reviews, such as comparison of prior year to current year, and audits performed.	X	
d. Documentation that internal audits, either formal or informal, are performed.	X	
e. Documentation that information from grant agencies flows to appropriate management personnel.	X	
f. Documentation that management takes appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors).	X	
C—Cash Management		
Control Objectives. To provide reasonable assurance that the (1) drawdown of grantor cash is only for immediate needs, (2) reimbursement		

Appendix 1: Grants Management Administrative Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
is requested only after costs have been incurred, (3) states comply with applicable Treasury agreements, and (4) recipients limit payments to subrecipients for immediate cash needs.		
1. Control Environment. Policies and procedures are in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control. Items a. - d. below should be in writing.		
a. Documentation that cash drawdowns, requests for reimbursement, and payments to subrecipients are approved by a responsible official(s).	X	
b. Dates documented that reimbursement is requested only after costs are incurred.	X	
c. Written budgets are available for cash drawdowns and they are consistent with realistic cash needs.	X	
d. A separate file is maintained that management takes appropriate action for known departures from approval policies or misuse of funds.	X	
2. Risk Assessment. Policies and procedures are in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives. Items a. - c. below should be in writing.		
a. Written documentation exists to anticipate, identify, and react to routine events that affect cash needs.	X	
b. Written documentation is in place to routinely assess the adequacy of subrecipient cash needs.	X	
c. Written documentation exists that management has identified programs that receive cash advances and/or reimbursements and is management aware of cash management requirements.	X	
3. Control Activities. Policies and procedures are in place to provide reasonable assurance that the draw down of grantor cash is only for immediate needs and limits payments to subrecipients for immediate		

Appendix 1: Grants Management Administrative Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
cash needs. Items a. - g. below should be in writing.		
a. Cash flow statements by program are prepared to determine essential cash flow needs.	X	
b. Proof that grant funds are deposited in a separate bank account or accounted for through grant fund control accounts.	X	
c. Written policies are in place that provide: (1) Actual cash outlays and reimbursements occur only after costs have been incurred. (2) Monitoring of cash management activities. (3) Repayment of excess interest earnings when required.	X	
d. Proof that the financial reporting system is capable of scheduling payments for accounts payable and requests for funds from grantors tc avoid time lapse between draw down of funds and the actua disbursement of funds.	X	
e. Documentation that there is an appropriate level of supervisory review of cash management activities.	X	X
f. This internal control applies only to state programs subject to Treasury-State agreements. If not applicable, mark N/A in the Comments column. Writter controls are in place to provide assurance that programs are in compliance with applicable Treasury-State agreements.	X	
g. Are written policies in place that include:	X	
(1) Programs covered by the agreement.	X	
(2) Methods of funding to be used.	X	
(3) Method used to calculate interest.	X	
(4) Procedures for determining check clearing patterns (if applicable for the finding method).	X	
4. Information and Communication. Policies and procedures are in		

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place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities. Items a. - b. below should be in writing.		
a. Documentation that variances between expected and actual cash disbursements of grant awards and draw downs of grant funds are reported tc an appropriate level of program management.	X	
b. Flowcharts that channels of communication have been established betweer pass-through entities and subrecipients regarding cash needs.	X	
5. Monitoring. Policies and procedures are in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed. Items a. - d. below should be in writing.		
a. Documentation of periodic independent evaluations (e.g., by internal audit, top management) of entity cash management, budget anc actual results, repayment of excess interest earnings, and grant drawdown activities.	X	X
b. Documentation that subrecipient requests for program funds are properly evaluated.	X	
c. Documentation that there is an appropriate review of compliance with Treasury-State agreements. If not applicable, mark N/A in the Comments column.	X	
d. Written documentation that management takes appropriate follow-up actior for identified problems or weaknesses in internal controls (including matters communicated by the auditors).	X	
F—Equipment and Real Property Management		
Control Objectives. To provide reasonable assurance that proper records are maintained for equipment acquired with grant awards, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with		

Appendix 1: Grants Management Administrative Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
grant requirements, and the grant awarding agency is appropriately compensated for its share of any property sold or converted to non-grant use.		
1. Control Environment. Policies and procedures are in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control. Items a. - d. below should be in writing.		
a. Documentation that management is committed and takes proper stewardship for property acquired with grant awards.	X	
b. Documentation that management takes appropriate action for known departures from approved policies and procedures.	X	
c. Documentation that there are no incentives in place and that the under-valuing of assets at the time of disposition does not occur.	X	
d. Proof that sufficient accountability exists to discourage temptation of misuse of grant assets.	X	X
2. Risk Assessment. Policies and procedures are in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives. Items a. - b. below should be in writing.		
a. A separate file is maintained by management to document the risk of misappropriation or improper disposition of property acquired with grant awards and are written policies and procedures in place to reduce the risk to an acceptable level.	X	
b. Documentation that management understands the requirements and operations sufficiently to identify potential areas of noncompliance (e.g., decentralized locations, departments with budget constraints, transfers of assets between departments).	X	
3. Control Activities. Policies and procedures are in place to provide		

Appendix 1: Grants Management Administrative Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
reasonable assurance that proper records are maintained for equipment acquired with grant awards, equipment is adequately safeguarded and maintained, disposition of encumbrance of any equipment or real property is in accordance with grant requirements and the grant awarding agency is appropriately compensated for its share of any property sold or converted to non-grant use. Items a. - f. below should be in writing.		
a. Accurate records are maintained on all acquisitions and dispositions of property acquired with grant awards.	X	
b. A documented physical inventory of equipment is periodically taken and compared to property records.	X	
c. Property tags are placed on equipment.	X	
d. Written policies and procedures are in place covering recordkeeping responsibilities and dispositions authority.	X	
e. Property records contain description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of grant participation in the cost, location, condition, and disposition data.	X	X
f. Documentation exists to provide reasonable assurance that the grant awarding agency is/is not appropriately reimbursed for dispositions of property acquired with grant awards.	X	
4. Information and Communication. Policies and procedures are in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities. Items a. - c. below should be in writing.		
a. The financial reporting system provides for separate identification of property acquired wholly or partly with grant		

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and non-grant funds.	X	
b. Proof that channels of communication are in place allowing people/ employees to report suspected improprieties in the use or disposition of equipment to an appropriate level of management.	X	X
c. Documentation that program managers are provided with applicable requirements and guidelines.	X	
5. Monitoring. Policies and procedures are in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed. Items a. - d. below should be in writing.		
a. Documentation that management reviews the results of periodic property inventories and follow-up on inventory discrepancies.	X	
b. Documentation that management risk assessments are updated periodically or as needed.	X	
c. Documentation that management reviews disposition of property to ensure appropriate valuation and reimbursement to grant awarding agencies.	X	
d. Documentation that management takes appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors).	X	
L—Reporting		
Control Objectives. To provide reasonable assurance that reports of grant awards submitted to the grant awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in		

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accordance with program requirements.		
1. Control Environment. Policies and procedures are in place to provide reasonable assurance that the control environment is conducive to and reflects an appropriate management attitude toward internal control. Items a. - e. below should be in writing.		
a. Documentation that management's attitude towards reporting promotes accurate and fair presentations?	X	
b. Documentation that persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities.	X	
c. Flowcharts that prove that there is an appropriate assignment of responsibility and delegation of authority for reporting decisions.	X	
d. Documentation that grant financial reports are prepared as required and filed within the time imposed by the grantor agencies.	X	
e. Documentation that management takes appropriate action for known departures from approved policies and procedures and compliance requirements.	X	
2. Risk Assessment. Policies and procedures are in place to provide reasonable assurance that the entity has identified and analyzed relevant risks to achievement of its objectives. Items a. - d. below should be in writing.		
a. Documentation of the procedures in place to identify risks of faulty reporting caused by such items as lack of current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of grant awards and written policies and procedures are in place to reduce the risk to an acceptable level.	X	
b. Proof that procedures are performed to identify underlying source data or analysis for performance or special reporting that may not be		

Appendix 1: Grants Management Administrative Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
reliable.	X	
3. Control Activities. Policies and procedures are in place to provide reasonable assurance that reports of grant awards submitted to the grant awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements. Items a. - f. below should be in writing.		
a. Written policies exist that establish responsibility and provide the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments.	X	
b. A timetable system in place which reminds staff when reports are due.	X	
c. The general ledger or other reliable records are the basis for the reports.	X	
d. Documentation that reports are reviewed by a supervisory-level person to ensure accuracy and completeness of data and information in the reports.	X	
e. Reconciliations exist of grant financial reports with supporting accounting records prepared by responsible employees and documentation of review and approval by a responsible official before filing.	X	X
f. The required accounting method is used (e.g., cash or accrual).	X	
4. Information and Communication. Policies and procedures are in place to provide reasonable assurance that the entity identifies, captures, and exchanges information enabling people to carry out their responsibilities. Item a. below should be in writing.		
a. flowcharts proving that a financial reporting or information system is in place that provides for the reliable processing of financial and performance information for grant awards.	X	

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5. Monitoring. Policies and procedures are in place to provide reasonable assurance that the effectiveness of internal controls over time is being appropriately assessed. Items a. - d. below should be in writing.		
a. Documentation exists that communications from external parties are reviewed to determine if they corroborate information included in the reports for grant awards.	X	
b. Documentation that comparisons of reports to supporting records are made periodically by appropriate officials.	X	
c. Documentation that management risk assessments are updated periodically or as needed.	X	
d. Documentation that management takes appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors).	X	

Appendix 2: Grants Management Accounting Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
1. Transactions / Events		
a. All transactions or events occurred. (Occurrence).	X	X
b. All transactions or events have been captured. (Completeness).	X	
c. All transactions or events have been accurately recorded. (Accuracy).	X	X
d. All transactions or events are recorded in the correct accounting period. (Cut-off).	X	
e. All transactions and events are correctly classified. (Classification).	X	X
2. Accumulation of Balances		
a. All account balances properly reflect amounts owed to the grantee agency or amounts the grantee agency owes to others. (Rights and Obligations).	X	
b. All account balances reflect what the grantor agency can reasonably expect to receive or pay. (Valuation and Allocation).	X	
3. Documentation		
a. Senior management is involved in critical decisions and significant events so as to create an agency-wide history justifying subsequent actions and decisions.	X	X
b. Transactions are traceable from inception through final reporting.	X	
c. Written policies and procedures exist for the day to day processes performed by employees.	X	X
4. Authorization / Approval		
a. Authorization for all tasks is documented and clearly communicated to employees.	X	
b. Management approval exists that employees have executed tasks effectively.	X	
5. Verification / Reconciliation		
a. Vendor invoices have been reviewed for accuracy by comparing to purchase orders and contracts.	X	
b. Grantee documentation has been reviewed prior to making grant payments.	X	
c. Receipts have been traced to bank deposit records.	X	
d. Eligibility has been reviewed and verified for program participation.	X	
e. Cash disbursements have been vouched back to bank statements.	X	

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6. Separation of Duties		
a. Individuals responsible for data entry of invoices do not approve invoices.	X	
b. Individuals responsible for acknowledging receipt of goods and/or services are not involved in the purchasing of goods and/or services.	X	X
c. Individuals involved in personnel onboarding do not have access to time entry.	X	
d. Managers review and approve payroll expenses and time sheets before data entry.	X	
e. Individuals performing physical inventory counts do not maintain inventory records or authorize withdrawals.	X	
f. Individuals receiving incoming check receipts do not authorize or record bank deposits.	X	
g. Individuals receiving revenue or making deposits are not involved in the reconciliation of bank accounts.	X	
7. Access / Security		
a. Mobile items are locked within secure facilities.	X	
b. Receipts are locked within secure facilities.	X	
c. Key cards are utilized to limit access to facilities.	X	
d. Periodic physical inventories of assets and inventories are performed for verification of values, location, and appropriate utilization.	X	X
8. Documentation of Supervisory Reviews - Grant Agreements		
8.1 Review the charter to determine duties, powers, and other data relevant to grants.	X	
8.2 Review the administrative code and ordinances enacted in the current year for information relevant to grants.	X	
8.3 Review general state statutes to the extent considered necessary for grants.	X	
8.4 If any legal requirements relevant to grants are unclear, request a written interpretation from the city's legal counsel.	X	
8.5 Accumulate or summarize in a file information identi-		

Appendix 2: Grants Management Accounting Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
fied for disclosure in the notes to the financial statements and consider the effect of such matters on other grants areas.	X	
8.6 Obtain the bank reconciliation for significant bank accounts and perform the following:		
a. Trace the bank balance on the reconciliation to the balance per the bank statement.	X	
b. Trace the reconciled book balance to the general ledger and the trial balance.	X	
c. Test the clerical accuracy of the reconciliation.	X	
d. Scan the bank reconciliation for significant or unusual reconciling items. Obtain explanations and review supporting documentation for any unusual reconciling items noted.	X	
8.7 Scan cash receipts and disbursements for significant or unusual transactions (including any bank transfers) near year end.	X	
a. Obtain explanations and review supporting documentation, as necessary, for any such items noted.	X	X
b. Obtain explanations for significant account variations from the prior-period.	X	
c. Assess the reasonableness of cash balances in light of your understanding of the grants' activities and current operating results.	X	
8.8 Confirm material cash (or cash equivalents) in savings or other institutions, certificates of deposit, and compensating balances. Also, consider confirming authorized check signers of depository accounts.	X	
a. Tie the confirmation amounts to general ledger amounts.	X	X
b. Consider the possibility of unrecorded interest or substitution of certificate numbers.	X	

Appendix 2: Grants Management Accounting Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
8.9 Obtain and review confirmations received from financial institution and determine if there are any loan, debt, and other significant agreements.	X	
a. determine if there are any related guarantees, endorsements, and/or letters of credit, including guarantee arrangements for related parties.	X	
b. Amounts are appropriately classified as cash, cash equivalents, or other short-term investments.	X	
c. Overdrawn cash balances are correctly reported as liabilities instead of negative cash balances.	X	
d. Procedures for establishing and complying with deposit risk policies are adequate.	X	
8.10 Consider the need to inquire of financial institution officials about or confirm federal depository insurance coverage.	X	
8.11 Review laws and regulations, grant agreements, and other similar documents for compliance requirements that could have a direct and material effect on cash.	X	
a. Legal or contractual provisions that require separate bank accounts for certain amounts.	X	
b.Cash restrictions, including withdrawal restrictions, minimum balance requirements and restrictions imposed by other agreements.	X	
c. Designations of amounts for special purposes.	X	
8.12 Ascertain whether deposits held at year end and during the period covered by the financial statements are in compliance with legal and contractual requirements as well the city's deposit policy.	X	
a. Obtain or update an understanding of the types of deposits permitted by law, contract, or deposit policy of the grants and the internal controls related to compliance with those policies.	X	

Appendix 2: Grants Management Accounting Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
b. Evaluate the city's compliance with legal, contractual, and policy provisions for deposits during the period and held at the end of the period.	X	
8.13 If the city internally pools its cash accounts, determine that the allocation of internal cash balances, income, and expenditures/expenses, is reasonable, accurate, in conformity with GASB and properly classified and disclosed in the financial statements.	X	
8.14 Periodically prepare the statement of cash flows using the direct and indirect methods and determine if cash flows properly reports as gross or net, properly classifies cash receipts and payments, reconciles operating income to net cash flow from operating activities, and discloses noncash investing and financing activities.	X	X
8.15 Determine that the information necessary to record all material assets and other related amounts (on the full accrual basis of accounting) not already reflected in the information to prepare the fund financial statements is available.	X	
8.16 Document supporting information on deposits necessary for financial statement presentation and for disclosure (including custodial credit risk) in notes to the financial statements.	X	
a. Determine whether information about deposits reported in the financial statements and disclosed in the notes to the financial statements includes all appropriate balances, including deposits held by fiduciary funds.	X	
b. Compare current-year disclosures to prior-year disclosures.	X	
c. Discuss deposit risk disclosures with responsible officials and consider (1) the reasonableness of the disclosures and (2) their conformity with GASB requirements.	X	

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8.17 Consider whether the results of audit procedures indicate internal control related matters that are required to be communicated to management and others. If so, add to the memo of points for the communication of internal control related communication.	X	X
8.18 Additional Bank Reconciliation Procedures **Perform the following procedures as deemed necessary for selected bank accounts:**		
a. Request a subsequent-period bank statement from the bank.	X	
b. Compare the beginning bank balance on the subsequent statement to the year-end bank reconciliation. Investigate any differences.	X	
c. Trace deposits in transit per the bank reconciliation to deposits in the subsequent bank statement, noting the reasonableness of the time period between book and bank recording.	X	
d. Inspect selected canceled checks that cleared on the subsequent bank statement. Trace checks dated before the balance sheet date to the list of outstanding checks.	X	
e. Inspect the dates on which checks cleared the bank. Investigate any large or unusual outstanding checks that cleared on the subsequent bank statement but took a long time to clear, and/or outstanding checks that did not clear. Also inquire whether any checks drawn before the balance-sheet date were released after that date or are being held. Consider whether such checks should be classified as accounts payable. Consider the classification of bank overdrafts.	X	
8.19 Bank Statements not received Directly from the Bank		
a. Inspect the bank statement for erasures or alterations and determine the clerical accuracy of the statement totals.	X	

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b. Foot the paid checks and deposit slips supporting the bank statement and compare the totals to the corresponding totals in the bank statement.	X	
8.20 Interbank Transfers		
Review a schedule of interbank transfers for 30 days before and after the period ending date and determine the following:	X	
a. Transfers between each ledger were recorded in the same period (that is, all transfers made before the end of the period were recorded in each ledger before the period end, and vice versa for transfers made after the end of the period).	X	
b. Transfers not clearing the bank in the same accounting period in which they were initiated are properly reflected as reconciling items on bank reconciliations.	X	
c. Transfers were not made from accounts for which transfers are prohibited by funding sources.	X	
8.21 Proof of Cash		
Perform a proof of cash using an expanded version of the bank reconciliation that reconciles the following (generally as a response to identified fraud risks):		
a. Beginning-of-period balances per the bank statement and the books.	X	
b.Current-period cash receipts per the bank statement to the corresponding items in the general ledger.	X	
c. Current-period cash disbursements per the bank statement to the corresponding items in the general ledger.	X	
d. End-of-period balances per the bank statement and the books.	X	
8.22 Certificates of Deposit and Other Securities on Hand		
Inspect significant certificates of deposit and other negotiable		

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securities on hand.	X	
8.23 Cash Disbursements		
Perform the following procedures (generally as a response to identified fraud risks):		
a. Review selected checks for unusual payees, endorsements, addresses, or amounts.	X	X
b. Review cash disbursements for an extended period prior to the period ending date.	X	X
8.24 Accounts Closed During the Year		
For depository accounts closed during the period, trace to authorization.	X	
a. Send standard bank confirmations for accounts closed during the audit year. Document the items selected for confirmation.	X	
8.25 Other Revenues		
a. Compare recorded revenue with the current budget and prior-period actual or other expectations.	X	
b. Investigate any unusual results (that is, variations different from what would be expected).	X	X
8.26 Interfund Transfers		
For interfund transfers, consider performing the following procedures:	X	
a. Identify all significant transfers, examine authorization, and compare to budgeted interfund transfers.	X	
b. Inspect reconciliations of interfund balances.	X	X
c. Determine that accounting for interfund transfers is in accordance with GASB.	X	

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8.27 Other Receivables		
Perform the following analytical procedures:		
a. Compare the balance in receivables with the balance for prior years or other expectations.	X	X
b. Compute the ratio of the receivables balance to related revenue for the current and prior years or other expectations.	X	
c. Compute the number of days revenue in receivables (receivable divided by average net revenue per day) and compare with the ratio for prior years or other expectations.	X	
d. Compute other ratios unique to the government (describe):	X	
e. Investigate any unexpected results considering known changes in current conditions.	X	
f. Update your understanding during review for estimating any related allowances for uncollectible accounts, if necessary, and consider the adequacy of the allowance.	X	X
8.28 Other Procedures		
a. Determine if amounts collected for other agencies are properly accounted for and segregated.	X	
b. Determine whether amounts reported for probable revenue-related refunds are adequate.	X	
c. Determine that the information necessary to record all material revenues, receivables, allowances and other related amounts (per GASB) not already reflected in the information to prepare the fund financial statements is available and has been considered and covered.	X	
d. Obtain a summary of, or summarize in a separate file, information on grant fund revenues, receivables, and receipts necessary for financial statement presentation and for disclosure, if applicable, in notes to the financial statements.	X	

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8.29 Expenditures/Expenses		
a. If considered necessary, update your understanding obtained of the nature of the grant and the factors that affect it's operations.	X	X
1. Inquire about and review documentation for any major changes during the period, noncompliance with legal and contractual provisions, and unrecorded and unreported contingencies.	X	
b. Review the City's procedures and related statutes and ordinances for purchasing goods or services.	X	
c. Inquire about the city's policy concerning first applying restricted or unrestricted resources when an expendi-ture/expense is incurred for purposes for which both restricted and unrestricted net assets are available. Review documentation to determine whether the city adheres to the policy.	X	
d. Inquire about the city's policy concerning first using committed, assigned, or unassigned resources when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. Review documentation to determine whether the city adheres to the policy.	X	
1. If the city does not establish such a policy, inquire about whether it considers committed amounts to be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used.	X	
e. Scan the accounting records for large and unusual transactions and review evidence obtained in other audit areas to determine any matters that should be disclosed in the financial statements. Cross-reference work done in balance sheet areas to the related expenditure accounts. Obtain an understanding of the business rationale for significant or unusual transactions.	X	X

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1. Determine whether transactions are property classified according to budget category when testing actual expenditures.	X	
8.30 Accounts Payable		
Obtain a listing of accounts payables of the period ending date. Agree or reconcile the balance to the general ledger.	X	
a. Scan the listing and investigate any unusual or old items.	X	
b. Scan the listing for related-party accounts payables. Determine that appropriate financial-statement disclosures are made.	X	
c. Compare the balances in accounts payable with those of prior years or other expectations. Investigate any unusual fluctuations, considering known changes in grant operations.	X	
With respect to unrecorded liabilities, perform the following procedures:	X	
a. Inquire of responsible personnel about the following:		
(1) Procedures for processing invoices and the consistency of such procedures with those of prior years.	X	
(2) Their knowledge of additional sources of unprocessed invoices, commitments, or contingent liabilities and whether accruals have been made for such items as of the period ending date.	X	
b. Trace receiving cutoff information to the accounting records, noting whether the liability is recorded in the proper accounting period.	X	X
Perform a search for unrecorded liabilities.		
a. Inspect files of open purchase orders, unprocessed vendor invoices, and vendor statements. If the goods or services were received on or before period end, determine whether the liability is included in the accounts payable listing or the listing of accrued liabilities.	X	X
b. Review cash disbursements records for disbursements after the period ending date. Obtain and examine supporting detail for material disbursements and determine		

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whether the goods or services on the paid invoices were received on or before the period ending date. If so, determine whether the liability is recorded. Document the source and selection criteria for items tested.(If the city uses a voucher register, consider performing the same procedures on material transactions vouchered after the period ending date.)	X	
c. Relate the findings in the search for unrecorded liabilities to the accrued balances.	X	
8.31 Accruals and Other Liabilities		
Compare the balances in accrued liabilities with those of prior years or other expectations. Investigate any unexpected fluctuations, considering known changes in grant operations.	X	X
Scan the working trial balance and determine those accrual or other liability accounts for which additional testing should be performed.	X	
a. Determine the basis and method of accrual.	X	
b. Test the reasonableness of the accrual by performing a predictive test of the amount.	X	
c. Consider whether immaterial balances appear reasonable and whether any needed accruals are missing.	X	
8.32 Encumbrances		
Obtain or prepare a listing of outstanding encumbrances at period end.	X	
a. Compare recorded expenditures and applicable encumbrances outstanding with budget appropriations.	X	
b. Determine that budget appropriation accounts have been encumbered for outstanding purchase orders.	X	
c. Inspect support for outstanding encumbrances at year end.	X	
d. Determine whether significant outstanding encumbrances are reported in accordance with GASB.	X	

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8.33 Long-outstanding Checks		
Inquire about and review documentation regarding long-outstanding checks. Determine that long-outstanding checks have been appropriately reversed and that unclaimed amounts have been properly handled in accordance with state escheat laws.	X	X
8.34 Other		
Determine that the information necessary to record all material accounts payable, other liabilities, and expenditures/expenses not reflected in the information to prepare the fund financial statements is available and has been considered and covered.	X	
Scan the financial statements to consider the propriety of classifications by fund type and budget category. Accumulate or summarize in a separate file information necessary for financial statement presentation and for disclosure in notes to the financial statements.	X	
8.35 Expenditures/Expenses		
a. Using the schedule of expenditures/expenses by function/program or more detailed level, compare balances in expenditure accounts by month and with corresponding monthly balances for the prior years.	X	
8.36 Vouching of Cash Disbursements and Other Expenditure Accounts		
Select a sample of cash disbursements for goods or services, and examine related supporting documentation (purchase order, receiving report, vendor's invoice, and check). Document the items selected and perform the following:	X	
a. Compare the amount, payee or vendor, date, and description to the vendor's invoice and canceled checks, as appropriate.	X	X
b. Determine that the transaction was properly recorded as to		

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period, account, fund, and budget category.	X	
c. Determine that use of restricted, reserved, or designated resources was proper.	X	
d. Determine that the transaction was properly authorized and in compliance with budget and legal requirements and established policies and procedures.	X	
e. Determine that encumbrances are relieved when goods or services are received, if applicable.	X	
f. Summarize exceptions and determine the results of the overall review.	X	
For specific selected expenditure/expense accounts that are sensitive or subject to unusual risk, select specific individual large disbursements and examine the documents supporting such transactions. This procedure should be considered for repairs and maintenance, legal fees, consulting fees, travel, and similar accounts.	X	
a. Explain the nature and reason for any expenditure/expense amounts that lack the proper support.	X	
b. Determine that the amounts tested are properly classified and recorded in the correct general ledger account.	X	
c. Document the items tested.	X	
8.37 Test of Clerical Accuracy and Review of Accounts Payable Listing		
Perform the following on the listing of accounts payable:		
a. Test the clerical accuracy of the listing. (If the governmental unit maintains accounting records on a non-GASB basis, also review the supporting schedules for the journal entry necessary to record the accounts payable.)	X	
b. Compare the listing to the listing at the end of the prior-period, watching for amounts significant in the prior-period but not significant in the current period, or significant in the current period but not significant in the prior period.	X	
c. Scan the listing for large debit balances and consider		

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confirming individually significant debit balances during the accounts receivable audit procedures. Document the items selected for confirmation. Prepare a reclassifying adjustment if debit balances are significant.	X	
d. Inquire about the following matters:		
(1) Whether there are noninterest bearing liabilities with explicit payment terms included in the listing. If so, consider reclassifying such liabilities to notes payable and consider whether the liabilities should be discounted.	X	
(2) Whether assets are pledged as collateral on such liabilities. If so, obtain supporting evidence of the assets pledged and accumulate carrying amounts for disclosure.	X	
8.38 Vendors		
Shortly before or as of the period ending date, select accounts payable vendors to whom confirmation letters should be mailed, including those with zero balances.	X	
a. Review the vendors selected for confirmation with responsible personnel.	X	
b. Document the accounts selected for confirmation.	X	
c. Test the completeness and accuracy of the accounts payable listing by reconciling confirmation replies to the individual account balances.	X	
8.39 Nonreplies of Account Payables		
Perform the following alternative procedures on nonreplies of accounts payable confirmations and/or selected unconfirmed accounts:	X	
a. Examine unpaid invoices,receiving reports,and bills supporting the recorded balances.	X	X
b. If possible, examine vendor statements dated near the		

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period ending date. Reconcile statement balances to the balances recorded in the account.	X	
c. Vouch subsequent payment of the liability.	X	
d. Inspect invoices from the selected vendor for purchases of goods and services subsequent to the period ending date. Determine whether invoices reflect an amount that was owed as of the period ending date.	X	
e. Perform the following (generally as a response to identified fraud risks):	X	
f. Send blank ("blind") confirmations requesting the vendor to provide information about all outstanding invoices. The confirmation may also request other information such as payment histories.	X	
8.40 Additional Procedures in Response to Risks of Misappropriation of Assets Related to Expenditures/Expenses, Accounts Payable, or Cash Disbursements		
Perform the following procedures (generally as a response to identified fraud risks):		
a. Review the vendor list for any unusual patterns, such as names that may be similar, but not identical, to names of approved vendors and vendors that have multiple addresses. Review vendor files for unusual items, such as vendor invoices that appear different from the norm, consecutive vendor invoice numbers, preprinted and not customized forms, different delivery addresses, different telephone numbers, and other unusual patterns.	X	
b. Examine disbursement records for payments of the following types:		
(1) Payments charged to expenditure/expense accounts in which it is suspected that fraudulent payments are being hidden.	X	
(2) Payments for services that do not require delivery of		

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goods or significant documentation to obtain payment (for example, payment of consulting fees, or repairs and maintenance).	X	
(3) Voided checks. (Cash may be embezzled by charging an expenditure/expense account, crediting accounts payable, voiding the check written to pay the payable, and removing it from the mail.)	X	
(4) Checks other than payroll checks made out to employees, or checks with a vendor address or phone number that is the same as an employee's.	X	
(5) Disbursements with a vendor name that is similar in sound or appearance to a legitimate vendor's name.	X	X
(6) Payments for amounts just below the threshold for approval.	X	
a. Examine original cancelled checks (both front and back) for the following (modify procedures as necessary for disbursements made by means other than checks such as electronic funds transfers):	X	
(1) The identity of the endorsees, comparing to the payee, date, and amount and reviewing the signature.	X	X
(2) Discrepancies between related documents, such as the amount or name on the check differing from the invoice or discrepancies between documents, checks, and the cash disbursements journal.	X	
(3) A second endorsement (for example, a check payable to a business that is endorsed by the business name and then by an individual or then endorsed over to the issuer of the check). (These are typical indications of fictitious payables.)	X	X
(4) Any check that was cashed rather than deposited.	X	
(5) Checks exhibiting any other unusual patterns.	X	
8.41 Subsequent Payments		

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Test the reasonableness of the accruals and other liabilities by examining subsequent payments or other supporting documents.	X	X
8.42 Prepaid Expenses		
Obtain or prepare a listing of prepaid expenses at year end.	X	
a. Review the nature of each significant prepaid expense account and evaluate whether it is appropriate to allocate such costs to future periods.	X	
b. Consider the consistency of application of GASB (for example, whether any items were treated as assets in the current period and expensed in a future period.	X	
c. Compare balances in the asset and expense amortization accounts with those of prior-periods, budgets, or other expectations.	X	
d. Determine the reasonableness of remaining asset balances and remaining amortization lives.	X	
e. Determine whether the amortization methods are in accordance with GASB and are consistent with those of prior years.	X	
8.43 Allocation of Indirect Cost		
Test the functional allocation of indirect costs as follows:		
a. Compare expenses charged to programs with any approved budgets prepared for the programs.	X	
b. As considered necessary, test the computations in the plan.	X	X
c. Test the allocations of expenses to programs and other functions based on the allocation plan.	X	
d. For employee benefit expenditures/expenses and accruals, consider the reasonableness of amounts and perform the following:		
1. Compare accruals for compensated absences (for example, vacation and sick leave) to the prior-period actual and current budget, when applicable, and compare the relation of amounts to gross pay with the same ratio for the prior-period.	X	
2. Obtain an understanding of th city's termination benefits agreement(s), including the significant		

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methods and assumptions used to determine termination benefit liabilities, and do the following:	X	
(a) Determine that the city's accounting and reporting for termination benefits are in accordance with GASB.	X	
(b) Review the calculation of termination benefits and determine the reasonableness of the expense/expenditure and liability reported.	X	
e. Identify bonuses or other unusual compensation, and inspect evidence of approval.	X	X
f. Compute the ratio of payroll tax and other employee benefit expenditures/expense to the payroll and compare the ratio with the ratios of prior years or other expectations.	X	
g. Consider the reasonableness of the accrual for payroll expenditures/expense at the end of the period by performing a predictive test of the amount (such as comparing it to the subsequent payroll run).	X	
h. Obtain a summary of, or summarize in a separate file, information necessary for financial statement presentation and for disclosure in notes to the financial statements.	X	
8.44 Pension Plans		
For pension expenditures/expense, compare the recorded expenditures/expense to the number of covered employees, and compare to the same relationship in the prior-period.	X	
Obtain an understanding of th city's OPEB.	X	
a. Determine that the city's accounting and reporting for OPEB are in accordance with GASBS No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than pension, as amended by GASBS No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.	X	
b. Determine the reasonableness of the OPEB expense/		

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expenditures and liability reported.	X	
c. In the year that GASBS No. 45 is implemented, determine that:		
(1) For sole and agent employer plans, the net OPEB obligation is set at zero at the beginning of the year and GASBS No. 45 is applied on a prospective basis.	X	
(2) For cost-sharing employer plans, the OPEB liability at the beginning of the year is equal to the employer's (a) contractually required contributions that are due and payable at the effective date and (b) OPEB-related debt, if any. (If the employer has recognized OPEB liabilities other than these, they should be set at zero.)	X	
If the city has significant pension or other post employment benefit plans requiring actuarial calculations:		
a. Obtain the plan document, latest actuarial valuation report, trustee's statement of plan assets, and census and plan asset data provided to the actuary.	X	
b. Reconcile aggregate census data, such as number of employees and covered compensation, to amounts shown in the actuarial valuation report or the actuary's letter.	X	
c. Check selected census data (age, sex, marital status, current pay, term of employment, etc.) to payroll records. Document the items tested.	X	
d. Based on plan documents, make appropriate tests to determine whether all eligible employees are included in the census data provided to the actuary.	X	
e. Reconcile plan assets per the trustee's report to amounts shown in the actuarial valuation report.	X	
f. Ascertain that the actuary appears to be professionally qualified in accordance with SAS No. 73 (AU 336).	X	
g. Consider the reasonableness of the discount rate used by the actuary.	X	
h. Inquire as to any relationships between the actuary and the		

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city that would impair independence.	X	
i. Review the latest plan document and compare with key provisions included in the actuarial valuation report. If the report does not include a description of key plan provisions, it may be necessary to confirm the actuary's understanding of such provisions.	X	
j. Inquire as to any recent plan amendments considered in preparing the actuarial valuation.	X	
k. Inquire of the city's legal department as to any intent to terminate the plan.	X	
l. Determine that the accounting for defined benefit pension or OPEB plans is in accordance with GASB requirements for governmental entities.	X	
m. Obtain a summary of, or summarize in a separate file, information on defined benefit pension and OPEB plans for financial statement presentation and disclosure in the notes to the financial statements.	X	
8.45 Payroll Journal		
a. For selected payroll journals, test clerical accuracy and compare total net payroll with the deposit to the payroll bank account an the general fund disbursing check, when applicable.	X	
b. Review reconciliations of salary and FICA totals to comparable totals on filed Form 941.	X	
8.46 Payroll Expenditures/Expense and Transactions		
c. Determine the key factors related to payroll (for example, avera hourly or weekly wage rate, per diem rate for temporary workers, and annual salary levels). Determine the total employees by type or class from a review of the payroll records. Also identify the normal rate of pay for employees at various levels. Design and document a predictive test of the total compensation expenditures/expense recorded, and compare the results with the salary expenditures/expense in the general ledger. Document explana-		

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tions for significant unexpected variations.	X	
d. Select a sample of payroll transactions during the year. Document the items selected and perform the following procedures:		
1. Trace the pay rate or amount to proper authorization, and consider compliance with pertinent funding source requirements, if applicable.	X	
2. Recalculate the gross pay if it is determined on an hourly basis, and trace the hours used to compute gross pay to time cards or time sheets, as appropriate.	X	
3. Determine that the gross pay amount is correct and properly classified as to account, fund, and budget category in the general ledger in accordance with the employee's job description.	X	
8.47 Payroll Distribution Observation		
If required by a funding source or otherwise considered necessary because of a high level of audit risk associated with the nature of the workforce (for example, high employee turnover; significant use of temporary employees; and use of employees in programs with a greater risk of fraud make a surprise observation of a payroll distribution as follows:		
a. Assume control of all payroll checks.	X	
b. Check the numerical sequence of all payroll checks and compare it with the payroll register.	X	
c. Compare the payroll register for the pay period with the registers for the preceding and subsequent pay periods and obtain explanations of any differences.	X	
d. Accompany the paymaster during the payroll distribution. Examine identification and a signature from each employee receiving a paycheck.	X	
e. If the employee has no identification, the employee's supervisor should vouch for the employee, and later examine the personnel and payroll records.	X	

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f. List unclaimed checks at the end of the payroll distribution.	X	
(1) When such checks are subsequently claimed, examine identification and signatures of the employees claiming such checks after the regular distribution.	X	
(2) Compare signatures on the listing sheet to the employee's W-4 form and employment application.	X	
(3) Review the employee's time card or time sheet for indication that the employee actually was absent. (This procedure tests the possibility of an absent employee being signed/checked in by another employee.)	X	
(4) Examine the time card or time sheet of the pay period covered by the payroll check.	X	
8.48 Misappropriation Payroll		
For the sample of payroll transactions tested, perform the following procedures (generally as a response to identified fraud risks):		
a. Review the payroll register and payroll check register for the following:	X	
(1) Duplicate names or addresses.	X	
(2) Names of former employees.	X	
(3) Math errors.	X	
(4) Unusual pay rates or number of hours worked.	X	X
(5) Factors that might indicate ghost employees.	X	X
b. Obtain a list of current and former employees from personnel files and compare it to the payroll list suspected of including fictitious employees and note any discrepancies.	X	
c. Look for employees who have no tax withholding forms, insurance elections, other employee benefit elections or deduction forms, or personnel files.	X	

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d. Determine whether any social security numbers may be fictitious or are the same number for two different people.	X	
e. Determine whether two different employees have the same address.	X	
f. For suspected fictitious employees, examine canceled payroll checks. If the canceled checks are missing, request copies from the bank.	X	
If required by a funding source or if otherwise considered necessary because of identified fraud risks or a high level of a risk associated with the nature of the work force (e.g., high employee turnover; significant use of temporary employees; use of employees in programs with a greater risk of fraud, perform the following procedures:	X	
a. Obtain the payroll register and examine it for proper approvals and signatures. Check footings and cross-footings and trace totals to the payroll summary and general ledger posting.	X	
b. Trace employee name, social security number, pay rate, and classification from the payroll register to personnel records.	X	
c. Trace hours worked on time cards or time sheets to the payroll register.	X	
d. Observe that time cards or time sheets are signed by the employee and approved by a supervisor.	X	
e. Trace paid time off to employee time and leave records.	X	
f. Recompute extensions for gross wages.	X	
g. Examine the W-4 form and compare withholdings per the W-4 form to the deductions from gross pay, and recompute net pay.	X	
h. Determine if any salary advances were made; if so, trace advances to authorizations and supporting memos.	X	
i. Examine the canceled payroll check, noting agreement of net pay with the payroll register and noting employee name, check amount, and endorsement (note double endorse-		

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ments, which could indicate a fictitious endorsement).	X	
j. Compare the endorsement on the check to the signature on the W-4 form.	X	
k. Trace individual employee payments to employee earnings cards.	X	
8.49 On-Behalf Payments		
If payments for salaries or fringe benefits are made on behalf of the city by another entity, perform the following procedures:		
a. Test the amount of the payments made through confirmations.	X	
b. Determine that the proper amount was recognized as revenue.	X	
c. Determine that the proper amount was recognized as expenditures.	X	
8.50 Capital Assets and Expenditures		
Obtain a schedule that summarizes, by type, the opening ending balances in each capital asset account, including infrastructure, and related accumulated depreciation/amortization accounts:	X	
a. Compare activity and balances in the capital assets and accumulated depreciation accounts with the activity and balances.	X	
b. Inquire about the city's capitalization policy.	X	
c. Inquire of responsible officials as to whether all additions and deletions have been reflected in the summary schedule.	X	X
d. Evaluate whether transfers of capital assets between funds and, if applicable, related debt have been properly reported.	X	
e. Evaluate whether the value of donated assets has been properly recorded.	X	
f. Investigate any unexpected results noted while performing the previous procedures (that is, variations different from what would be expected based on prior-year results and capital budget or other expectations), considering known changes in the city's activities.	X	
g. Inquire about whether and how the procedures used for		

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capital asset disposals ensured compliance with applicable laws and regulations relevant to property disposals. (For example, some states have laws requiring all local governmental units to dispose of property only through public auctions.) If applicable, examine support for compliance with the requirements.	X	
Based on your understanding of the city, make inquiries of management, review minutes of governing body meetings and significant new leases or other contracts, physical observation, and tests in other audit areas:	X	
a. Determine whether all significant additions (purchased, self-constructed, or acquired under capital lease)and dispositions (sales, retirements, or abandonments) are reflected in the accounting records and whether material additions are the property of the city.	X	
b. Determine whether the city has satisfactory title to capital assets (or other evidence for infrastructure assets), whether any liens exist, or whether any capital assets have been pledged.	X	
Determine that intangible assets under the scope of GASB Accounting and Financial Reporting for Intangible Assets, are classified as capital assets, recognized in the financial statements, measured, and amortized in the same manner as other capital assets.	X	
Test the adequacy of depreciation/amortization expense.	X	
a. Inquire of responsible officials about whether there has been any change in depreciation/amortization lives or methods, and whether there are significant amounts of fully depreciated/amortized assets.	X	
b. Scan the schedule of Capital assets opening and ending balances and transactions to determine whether there are any material fully depreciated or amortized assets and, if so, whether they are still in use; whether all assets required-		

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to be depreciated/amortized are being depreciated/amortized; whether useful lives of assets are reasonable: whether depreciation/amortization methods are in accordance with GASB and consistent; and whether depreciation/amortization expense for the year appears reasonable.	X	
c. Cross-reference depreciation/amortization charged to the various allowance accounts to depreciation/amortization reflected in the respective statements of activities. Determine that depreciation/amortization expense is charged to the proper function.	X	
Considering information obtained in other procedures and information obtained during facility tours or inventory observations, evaluate whether the remaining useful lives of assets are reasonable and the net carrying values are recoverable.	X	X
a. If a capital asset has been identified as being potentially impaired, determine if the two impairment tests in GASB No. 42 have been met—both of which must be met—before an impairment loss is required to be reported.	X	
b. Determine whether capital asset impairments and related insurance recoveries, if any, have been properly reported in the financial statements.	X	
8.51 Test of Clerical Accuracy - Capital Assets		
Perform the following on the schedule of opening and ending capital assets balances and transactions:	X	
a. Test the clerical accuracy.	X	X
b. Trace the opening balances to the adjusted prior-year working trial balance and the ending balances to the current-year working trial balance.	X	
(1) Review any reconciliation to the general ledger and investigate any unexpected reconciling items.	X	X
8.52 Test of Additions to Capital Assets		

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Identify significant current period additions to capital assets.	X	
Document the items selected, and perform the following procedures:		
a. Test the cost by examining supporting documents such as purchase orders, paid checks, notes payable, vendors' invoices, purchase contracts, lease agreements, and receiving reports.	X	
b. Consider whether additions are recorded in the current period and classified correctly as to account, fund, and budget category.	X	
c. For constructed capital assets and construction in progress. examine appropriate supporting documents such as contracts, work orders, job status reports. etc. Determine that labor, overhead, materials, and construction interest are included in the cost. Inquire of responsible personnel about the status of construction in progress and determine whether any amounts should be reclassified into depreciable assets. Determine that any related retainage payable has been properly accrued.	X	
d. For purchase of significant amounts of real property, examine titles.	X	
e. Examine support for reported fair values of donated assets.	X	
f. Obtain support for authorization of additions.	X	
g. Consider physically inspecting all or selected major additions.	X	
h. Inspect lease agreements entered into during the year.	X	
8.53 Test of Repairs and Maintenance		
Obtain an analysis of transactions in the repairs arid maintenance.	X	
a. Compare repairs and maintenance expenditures/expenses.	X	
b. Scan the analysis and consider whether the expenditures/ expenses contain significant or unusual items that should be capital assets.	X	
c. Compute the ratio of repairs and maintenance expenditures/expenses to the balance of capital asset accounts and compare to the ratio for prior years or other expectations.		

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Investigate any unexpected results considering known changes in client activities.	X	
d. Examine invoices for significant repairs and maintenance expenditures/expenses. Document the items tested.	X	X
8.54 Test of Dispositions		
For current-year dispositions, perform the following procedures:		
a. Identify significant dispositions. Document the items selected and perform the following procedures:	X	
(1) Vouch proceeds from sales of property to remittance advices or notes receivable.	X	
(2) If applicable, recompute depreciation through the date of sale.	X	
(3) Trace original cost and acquisition date of the asset to prior-period property records.	X	
(4) Recompute the gain or loss and cross-reference the amount to the revenue / expenditure / expense accounts.	X	
(5) Determine that the disposition was properly authorized, was conducted in accordance with applicable legal requirements, and did not include assets pledged on existing debt.	X	
a. Investigate significant shortages, it any, identified in the city's inventory of assets.	X	
b. Inquire whether any additions were replacements of other assets and, if so, consider whether the replaced asset has been properly accounted for.	X	
c. Scan miscellaneous income accounts for significant proceeds or gains/losses from the sale or disposal of assets. Determine whether the related cost and, if applicable, accumulated depreciation of the asset sold of are reflected in the schedule of opening and ending balances and transactions.	X	

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d. Inquire whether any major sales of assets were sale/lease-back transactions. If so, determine the propriety of accounting for them.	X	
8.55 Test of Depreciation/Amortization Expense		
Perform one or more of the following to test depreciation/amorti zation expense:		
a. Compute the ratio of depreciation/amortization expense to the related capital assets and compare to the ratio for prior years or other expectations. Investigate any unexpected results considering known changes.	X	
b. Recompute depreciation / amortization expense on selected assets.	X	
c. Scan the revenue accounts for gains or losses on retirements and disposals and consider the implications of unusually large gains or losses on the reasonableness and consistency of depreciation/amortization policies, lives, and salvage values.	X	
d. Determine that depreciation on constructed assets begins at the time the asset is placed in service.	X	
8.56 Consideration of Classifications		
Based on inquiry of responsible officials and the results of procedures performed in other areas (that is, review of items noted during the tour of physical facilities, and reading lease and debt agreements), determine the following:		
a. Whether idle assets are appropriately identified, valued, and classified.	X	
b. Whether liens related to assets have been identified and disclosed in the financial statements. Conversely, whether assets currently pledged as collateral on a loan have not been sold or damaged.	X	X
c. Whether significant capitalizable leases exist that are not		

Appendix 2: Grants Management Accounting Controls Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
reflected in the schedule of opening and ending balances and transactions. (If so, propose adjustments to record and properly classify such capital leases.)	X	
d. Whether significant amounts of property held for sale or investment purposes are properly identified and classified	X	
For selected or high-value assets, review documents such as insurance policies, schedules of property covered by casualty insurance policies, and schedules used for property tax records for evidence of valid title and that assets have not been pledged.	X	
8.57 Misappropriation - Capital Assets		
Perform the following (generally as a response to identified fraud		
risks):		
a. Perform a physical count to determine whether any capital assets are missing.	X	X
b. Examine documentation supporting capital expenditures,		
paying particular attention to delivery addresses.	X	X
c. Consider the business rationale of capital asset additions.	X	X
8.58 Asset Construction		
If the city has more than incidental construction activity, perform the following procedures:		
a. Consider whether there is compliance with laws and regulations per:		
(1) Contracts were bid and awarded in accordance with legal requirements.	X	X
(2) Contractors have given appropriate bonds.	X	X
(3) Required insurance coverage has been provided.	X	
(4) Contract amendments have been approved.	X	X
b. Vouch payments to contractors to approved progress billings, compare:		
(1) Original contract amount.	X	
(2) Approved change orders.	X	
(3) Adjusted contract amount.	X	
(4) Payments to date.	X	
(5) Amount retained.	X	X

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(6) Balance payable.	X	
(7) Status of the contract.	X	
c. Compare architects and engineers fees paid and payable to:		
(1) Fee scale, payments to date, and balance payable.	X	
(2) Agreement with data confirmed by contractors.	X	
(3) Compliance of the contractor with contract specifications.	X	X
(4) Estimated cost to complete and expected date of completion.	X	
(5) Document the items selected for confirmation.	X	
d. For construction completed during the period, trace the transfers to the capitalized assets.	X	
8.59 Capital Expenditures Involving Legal Proceedings		
For capital expenditures involving legal proceedings (e.g. right-of-ways), perform the following procedures:		
a. Compare the recorded amount to the approved supporting invoice.	X	
b. Confirm payments directly with payees.	X	
c. Document the items selected for confirmation.	X	
d. For contested action, obtain a legal opinion on possible outcomes.	X	
8.60 Long-term Leases		
For long-term leases, perform the following procedures:		
a. Review the lease agreement and abstract pertinent provisions.	X	
b. Determine that lease obligations have been paid.	X	
c. Determine that the city is not in default.	X	
d. Review the correctness of classification as an operating or capital asset.	X	
e. Confirm the lease agreement with the lessor.	X	
8.61 Insurance Coverage		
Inspect insurance policies for coverage and confirm insurance coverage with the insurance agent or, preferably, directly with the insurance company. Document the items selected for confirmations.	X	

Appendix 3: Grants Management Financial Reporting Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
1. Defining the Financial Reporting Process		
a. Management establishes a well-defined written systematic process for financial reporting. The process and its key attributes (e.g., overall timing, methodology, format, and frequency of analyses) are formally written and documented, approved, and reviewed by management on a regular basis. Employees are responsible for maintaining a "Review File" in the order that management establishes. The "Review File" should be easily accessible to management and maintained in an orderly and timely basis for ease in reviewing.	X	X
b. Knowledgeable personnel monitor changes in authoritative guidance and regulations that affect the entity and make the appropriate changes to the entity's accounting policies and procedures on a timely basis. A written file should be maintained so that employees may easily review and understand the changes. Examples of the new changes should be provided.	X	
c. A written file should be maintained documenting independent reviews of significant judgments, estimates, and nonroutine events included in the financial records and performed at the end of every accounting period by knowledgeable personnel. A supporting analysis should be included whenever applicable.	X	X
d. Management receives appropriate reporting packages, sign-offs, and representations from the grant administrators (other departments) of the organization to ensure all relevant transactions and/or information has been recorded and/or disclosed on a timely basis.	X	X
2. Capturing and Processing Nonroutine Information		

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a. All journal entries, including nonstandard/nonroutine entries, have adequate supporting documentation and are reviewed and approved independently prior to posting.	X	
b. Management and those charged with governance (if separate from management) review financial reporting on a regular basis. Such briefing includes a discussion of significant nonstandard and/or nonroutine events and transactions, selection and application of critical accounting policies, areas with unusual fluctuations, and other relevant significant issues.	X	
3. Preparing and Reviewing Disclosures		
a. Up-to-date disclosure checklists are used to ensure that all relevant financial information is disclosed in the appropriate accounting period in accordance with GAAP (or an OCBOA) and the entity's accounting and disclosure policies.	X	X
b. Management reviews appropriate reporting packages, sign-offs, and representations from grant administrators of other departments to ensure all relevant information has been recorded and disclosed on a timely basis.	X	
c. For each disclosure, a timely supporting analysis is prepared and documented in a written file.	X	
d. An independent review of the program financial reports or the schedule of expenditures of federal awards and all related disclosures is performed by management and/or other suitably qualified personnel for completeness, consistency, and compliance with GAAP (or an OCBOA), grantor requirements, and the entity's accounting and disclosure policies on a timely basis throughout the year.	X	X

Appendix 3: Grants Management Financial Reporting Checklist - Finance Department	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
4. Reviewing and Approving the Program Financial Reports or the Schedule of Expenditures of Federal and/or State Awards		
c. All program financial reports or the schedule of expenditures of federal and/or state awards and related disclosures are indexed and cross indexed by appropriate program personnel prior to the release to third parties.	X	X