

**Imperial County**  
**Office of the Auditor-Controller**  
**Internal Audit Standard Practice Manual**



# Imperial County Office of the Auditor-Controller Internal Audit Standard Practice Manual

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Chapter 1

Our Mission, Our Authority, Our Responsibility

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Chapter 1

What is Our Mission?

Our mission is to provide an independent appraisal of county operations performed as a service to the Board of Supervisors, county department heads, and the public. We accomplish our mission by performing independent reviews and evaluations of all significant activities within the County in order to establish that (1) the County's system of internal control is adequate and effective in protecting and safeguarding the County's resources and assets, and (2) that activities are executed in accordance with prescribed policies, procedures, laws and regulations.

Authority

Government code section 26883 allows the Board of Supervisors to empower the Auditor-Controller to "audit the accounts and records of any department, office, board, district or institution under its control and special districts whose funds are kept in the county treasury."

Responsibilities of the Auditor-Controller

In overseeing the internal audit function, the Auditor-Controller shall adhere to the standards established by the Comptroller General of the United States Government Auditing Standards (The Yellow Book). The staff assigned by the Auditor-Controller to oversee the internal audit function shall establish policies and procedures to:

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- (a) Conduct financial statement audits. A financial statement audit determines:
1. Whether the financial statements of an entity present fairly the financial position, results of operations, and cash flows in accordance with generally accepted accounting principles, and
  2. Whether the entity has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements.

Such audits shall be conducted in accordance with generally accepted auditing standards and accordingly shall include tests of the accounting records and other auditing procedures as may be considered necessary under the circumstances.

- (b) Conduct financial related audits. A financial related audit determines:
1. Whether financial reports and related items, such as accounts or funds are fairly presented.
  2. Whether financial information is presented in accordance with established or stated criteria, or
  3. Whether the entity has adhered to specific financial compliance requirements.

Such audits shall be conducted in accordance with generally accepted auditing standards and accordingly shall include tests of the accounting records and other auditing procedures as may be considered necessary under the circumstances.

- (c) Conduct internal control reviews of any county department, office, activity or agency under the control of the Board of Supervisors. An internal control review assesses the effectiveness of the internal control structure established by management. Such reviews shall be conducted in accordance with applicable auditing standards.

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- (d) Conduct special audits, reviews, and investigations. Such assignments are limited in scope.
- (e) Conduct follow up reviews to determine the status of all reported audit findings.
- (f) In the event the Auditor-Controller is unable to perform any of the audits identified above, the Auditor-Controller will advise and assist any County department, office or agency in obtaining an outside auditor.

**Audit of Records**

The Auditor-Controller shall have authority to examine all documents necessary to complete the audit including but not limited to books, accounts, internal and external correspondence, reports, bank accounts, money and other property of any county department, office or agency, whether created by statute or ordinance.

It is the duty of any County officer, employee or agent having control of such records to permit access to, and examination thereof, upon the request of the Auditor-Controller or his or her representative. It is also the duty of any such officer, employee or agent to fully cooperate with and disclose all pertinent information.

The Auditor-Controller shall have access to confidential records necessary to the successful completion of the audit. The Auditor-Controller, or his or her representative, shall maintain confidentiality of said records and shall not disclose in any report or public document any individuals to whom said records pertain.

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Independence

Independence and objectivity are essential to the effectiveness of the internal audit function and, therefore, the auditor's assigned to oversee the internal audit function shall have no authority or responsibility for activities audited nor responsibility for the development of procedures or the design and implementation of systems – manual or automated.

Audit Reports

The department, office, or agency audited shall prepare a response to any audit report issued by the Auditor-Controller within 15 days of receiving the draft audit report. The response shall indicate which of the corrective actions have been implemented; which are yet to be implemented and the anticipated completion date; and which will not be implemented, the reason and any alternatives.

The final audit report shall be distributed to officials designated by law or regulation to receive such reports; the head of the department audited, the Board of Supervisors, the District Attorney, and any other individual(s) in accordance with policies and procedures established by the Auditor-Controller.

Any report issued by the Auditor-Controller is a matter of public record.



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**Follow-up on Reported Findings**

Significant audit findings (involving fraud or embezzlement) will be followed up on by the Auditor-Controller at six month intervals until satisfactorily resolved. The Auditor-Controller will issue written reports of these follow up reviews to the Board of Supervisors and other appropriate officials designated by the Auditor-Controller.

The Auditor-Controller will address less significant findings and recommendations in the next audit performed of the entity.

**Request for Audits, Reviews, or Investigations**

Audits, reviews, or investigations may be conducted at the request of the Board of Supervisors or any other County official; however, the Auditor-Controller or his or her representative will determine when such requests will be scheduled.

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Chapter 2

Audit Schedule

Annual Audit Schedule

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Assigning Audits

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Annual Audit Schedule

In order for the Internal Audit Division to effectively carry out its mission a one-year audit schedule is prepared at the beginning of each fiscal year. In developing the schedule, the Audits & Systems Manager shall take into consideration state or federal government mandates, contractual, and other audit requirements; requests by interested parties; and those departments/programs/functional areas identified based on a countywide risk assessment survey (see appendix A, pages 62-63).

Based on the information gathered, the audit schedule will be prepared and submitted to the Auditor-Controller for review and approval.

In order to remain flexible and to provide audit services when needed by the County, the annual audit schedule may be amended at any time during the fiscal year. All amendments to the annual audit schedule must be approved by the Auditor-Controller.

Assigning Audits

All assignments, except for special requests, are based on the official audit schedule. The difficulty of the audit and the experience of the auditor are considered when assigning audits to staff.

The scope of the audit and the time budget being allowed for each audit should be obtained from the audit schedule.

For departmental audits, the auditor should allow approximately 6 weeks from the last day of fieldwork to the day the report is submitted to the Board of Supervisors to allow time for review of the audit by the audit manager, assistant auditor-controller, and auditor-controller and response from the department for any findings and recommendations.

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**Audit Planning**

The first standard of audit field work states that the work is to be adequately planned and any assistants assigned are to be properly supervised (SAS No. 108).

The auditor in charge must develop a “plan of action” to organize, coordinate and schedule the activities of the audit staff. This advance planning is accomplished through the audit plan, which is an overview of the engagement. Typically, the plan will include the following:

- 1) establishing a written understanding with the client
- 2) preliminary engagement activities
- 3) establishment of overall audit strategy
- 4) develop audit plan
- 5) communications with those charged with governance and management

The audit plan is normally drafted prior to the start of work, but the plan should be viewed as evolutionary, taking into account audit procedures performed and the accumulation of adequate audit evidence to support the audit opinion, which may result in more or less audit work.

As part of the planning process, the auditor should complete the appropriate sections of the Audit Planning Questionnaire (see appendix B, page 64) and the fraud risk identification form (see appendix C, page 65). By completing these forms, the auditor is documenting their understandings and their assessments of risk in planning the audit.

Also, the auditor assigned to perform an audit will meet with the Audits & Systems Manager, and in some cases, with the Assistant Auditor-Controller and Auditor-Controller to discuss the audit scope and objective and to identify possible fraud risk factors.

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Use of Risk Assessment in Audit Planning

Risk assessment is management's process for identifying, analyzing, and managing risks from external and internal sources relevant to the preparation of financial statements so that they are fairly presented in conformity with generally accepted accounting principles.

An overriding objective throughout the planning process for the auditor is the consideration of risks that could result in material misstatement of the financial statements.

The Auditing Standards Board has issued several pronouncements related to Risk and Fraud Assessment:

- SAS-99 Consideration of Fraud in a Financial Statement Audit
- SAS-104 Due Professional Care in the Performance of Work (amends SAS-1)
- SAS-105 Generally Accepted Auditing Standards (amends SAS-95)
- SAS-106 Audit Evidence
- SAS-107 Audit Risk and Materiality in Conducting an Audit
- SAS-108 Planning and Supervision
- SAS-109 Understanding the Entity and Its Environment and Assessing the Risk of Material Misstatement
- SAS-111 Audit Sampling (amends SAS-39)

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Risk assessment and other planning procedures required by SAS No. 108 and 109 to obtain an understanding of the entity and its environment, including its internal control, and to assess the risks of material misstatement include the following:

- 1) preliminary engagement activities, including establishing an understanding with the government unit.
- 2) inquiries of management and others.
- 3) preliminary analytical procedures.
- 4) observation and inspection, including visits to the government unit and tracing transactions through the information system (that is, walkthroughs).
- 5) discussion among the engagement team.

Each of the items listed are explicitly required by the risk assessment standards and, except for item 4, are also explicitly required in SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*.

The standards are explicit in indicating that inquiry alone is not sufficient to evaluate the design and implementation of internal control. Therefore, observation and inspection will most likely be coupled with inquiry procedures when obtaining an understanding of internal control.

### Establishing an Understanding with the Government Unit

This is established through the audit engagement letter (see appendix D, pages 66-67, for a sample audit engagement letter). The risk assessment standards explicitly require the issuance of a written engagement letter as a means of establishing an understanding with the government unit. While the issuance of an engagement letter does not, by itself, result in the

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identification of risks that may result in a misstatement of the financial statements, the understanding may reduce risk to the auditor by clarifying responsibilities of each party and the objectives and limitations of the engagement.

**Inquiries of Management and Others**

Inquiry of management and others is used extensively throughout the audit planning process. Management should be questioned about the following items as enumerated in SAS No. 109 and SAS No. 99:

- a. aspects of the entity's operations and its environment, including its internal control as enumerated in SAS No. 109.
- b. information about fraud, suspected fraud, fraud-related programs and controls, risks of fraud as enumerated in SAS No. 99.

The audit staff will use the Fraud Risk Inquiries Form in Appendix F, pages 99-100 to assist in documenting their inquiries of management and others about their knowledge of the risks of fraud within the entity.

Besides management and employees associated with the entity, the auditor may decide to interview others within and outside of the organization. Examples of other inquiries would be those charged with governance, and other employees not directly involved with the entity such as financial reporting personnel, in-house counsel or information systems.



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**Preliminary Analytical Procedures**

Preliminary analytical procedures assist the auditor in identifying potential areas of risk and planning the audit. Examples of analytical procedures include reviewing changes in account balances from the prior year to the current year or comparing actual activity to the budget. Also, analyzing trends in revenues or expenditures may assist in identifying areas of potential risk. For example, the entity issues more permits during the current fiscal year in comparison to the previous, but the revenue remains flat year to year. Another example would be unusual expenditures incurred by the entity or expenditures that do not seem to correspond to the entity's activities (for example, the Auditor's office purchasing a sump pump).

These preliminary analytical procedures may be accomplished through the review of the IFAS ledgers.

**Observation and Inspection**

SAS No. 109 states "observation and inspection may support inquiries of management and others, and also provide information about the entity and its environment."

Observation and inspection procedures may include:

- 1) Observe how the entity provides services to the public. Observe how transactions are initiated and the process completed. Trace transactions through to the ledgers.
- 2) Inspect the entity's business plans and strategies, internal control manuals, policy manuals, and other similar documents and records.

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- 3) Read management and internal audit reports.
- 4) Visit the entity's premises.
- 5) Read board minutes.

**Discussion among the Engagement Team**

Discussion among the engagement team, which includes the Assistant Auditor-Controller, Audit Manager, In Charge Auditor and assigned audit staff are required under SAS No. 109 to discuss the entity's susceptibility to material misstatements in the financial statements. SAS No. 99 requires the audit team to "brainstorm" how and where it is believed that the entity's financial statements might be susceptible to material misstatement due to fraud. This discussion gives auditors with more experience the opportunity to assist lesser experienced team members by sharing their insights.

Items to be discussed amongst the audit team include but are not limited to the following:

- 1) Critical issues and areas of significant audit risk.
- 2) Areas susceptible to management override of controls.
- 3) Unusual accounting practices used by the entity or changes in the entity's organization or systems.
- 4) Application of GAAP to the entity's facts and circumstances in light of its accounting policies.
- 5) How materiality will be used to determine the extent of testing.
- 6) The need to exercise professional skepticism throughout the engagement, to be alert for information or other conditions that indicate that a material misstatement due to fraud or error may have occurred, and to aggressively follow up on such indications.
- 7) Known accounting and auditing issues.

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SAS No. 109 requires that the following items must be documented regarding the audit team discussion:

- How and when the discussion occurred.
- Team members present.
- Procedures performed to identify and assess fraud risk and the results of those procedures performed to address the risk of management override of controls.
- Decisions made concerning any additional audit procedures to be performed and how those decisions were made by the team.

**Audit Strategy**

Developing an audit strategy allows the audit team to focus its efforts on areas relating to materiality, risk of misstatement or fraud, internal control or other areas identified in the preliminary analytical procedures performed. Areas of higher risk would require more audit effort and time, while areas of lesser risk would require less audit effort and time. Also, addressed in the audit strategy is the audit staffing requirements, i.e. assigning auditors with more experience to high risk areas or the involvement of experts on complex matters.

**Audit Program**

The audit program details the nature, timing and extent of audit procedures to be performed by the audit staff. The audit program should include procedures that provide sufficient appropriate audit evidence to reduce audit risk to an acceptable low level.

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**Entrance Conference**

Contact the department head to schedule the Entrance Conference. The entrance conference should be attended by the department head and/or his representative and any staff which oversee the entity's financial and accounting activities.

Prepare an agenda for the entrance conference, which should be shared with the department prior to the meeting. Topics for discussion include:

- audit scope and objectives
- audit process and schedule
- identification of key individuals
- request list of records maintained and reports generated by client necessary to begin audit
- concerns of management
- arrange a work area for the audit

**Audit Package**

Prepare the Audit Package prior to attending the entrance conference. The audit package includes those documents listed below (at a minimum) and is usually delivered to the client at the entrance conference.

- Engagement Letter (see example Appendix D on pages 66-67)
- Request for Information Letter

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Engagement Letter

Prepare the Engagement Letter, which summarizes the mutual understanding between the auditor and the client. The engagement letter, which includes the following, is signed by the Audits & Systems Manager.

Addressee: The department head or legislative authority (special districts) of the entity to be audited.

Identification of Department/Funds to be Audited: Identify the department/funds to be audited and the period to be covered.

Service to be Provided: The nature of the service that will be performed, including the auditing standards which will apply. The letter should state that the audit includes testing of accounting records and other procedures the auditor considers necessary in the circumstances. The engagement letter also should include the type of report that the auditor expects to issue.

Limitations of Audit: The inherent limitations of an audit. It should indicate that an audit performed under GAAS is planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatements but, because of the concept of reasonable assurance, there is a risk that the audit would not in all circumstances detect fraud, defalcations, and other irregularities.

Responsibility for Department/Funds: An acknowledgement that the administrators of the department or entity are responsible for the funds audited.

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Department Assistance: Any work that will be performed by the department's employees such as typing of confirmations or preparation of schedules.

Communication of reportable conditions: An indication that the department will be informed of any reportable conditions coming to the auditor's attention. Such communication is required by SAS No. 60.

Other Services: An accurate and complete description of any other services the auditor will perform.

Fees for Services: The anticipated fee (if applicable) for services, the basis for determining the fee, and the method of payment.

Timing: The date the auditor expects to begin and complete his/her work.

Acknowledgement: The client's written acknowledgement of the terms and conditions of the audit engagement.

### Request for Information Letter

Prepare the Request for Information Letter which asks the client to provide (1) information regarding who to contact for the purpose of the audit and (2) various documents necessary for performing the audit. In addition, the letter may include a list of documents/records which should be made available during the audit and any other relevant documents for the client's signature or action (e.g., confirmation letters, worksheets/schedules, etc.).

Document all attendees and proceedings of the entrance conference on the Entrance Agenda Worksheet and place in the audit file.

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Chapter 4

Audit Risk Assessment and the Five Elements of Internal Control

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**Audit Risk and Materiality**

Statement on Auditing Standards No. 107 provides guidance to auditors on audit risk and materiality by linking the materiality of a potential misstatement or fraud to the assessed risk of the misstatement or fraud occurring. SAS No. 107 states it is “the auditor’s responsibility to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.”

SAS No. 107 requires the auditor to consider materiality at the financial statement level as well as at the individual account balance, class of transactions or disclosure level.

Considerations at the financial statement level are:

- a) Effected by the size and complexity of the entity.
- b) The auditor’s experience with and knowledge of the entity and its environment.
- c) The entity’s internal controls.
- d) The potential users of the financial statements, their reliance on the information, and whether the disclosure of the misstatement would have changed or influenced the user’s judgment.

Considerations at the individual account balance, class of transactions or disclosure level are:

- a) That the misstatement could be material when aggregated with misstatements in other balances, classes or disclosures to the financial statements taken as a whole.
- b) The risk of understatement or overstatement at the relevant assertion level.
- c) Risk that a material misstatement could occur, but not be prevented or detected by the entity’s controls.
- d) Risk that the audit will not detect the material misstatement.



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At the individual account balance, class of transactions or disclosure level, audit risk consists of inherent risk, control risk and detection risk.

*Inherent risk* is the susceptibility of an account balance, class of transactions or disclosure level to misstatement that could be material, individually or when aggregated with errors in other balances or classes, assuming that they were not related to internal control policies and procedures.

*Control risk* is the risk that misstatements could occur in an account balance or class of transactions that could be material, either individually or when aggregated with other misstatements that will not be prevented or detected on a timely basis by the internal control structure.

*Detection risk* is the risk that the auditor's procedures will not lead him to detect a misstatement that could be material in an account balance or class of transactions either individually or when aggregated with other misstatements. Detection risk relates to the substantive audit procedures and their application by the auditor.

How are materiality levels measured? The determination of materiality is a matter of professional judgment and may or may not be quantified.

**Assessment of Inherent Risk**

Inherent risk relates to the characteristics of an entity's operations or the industry it is a part of, which could cause the entity to be more or less susceptible to material misstatement. For example, cash is more susceptible to theft than an inventory of granite.

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**Internal Control**

Establishing and maintaining internal controls and the internal control structure are the responsibility of management, whereas the review and evaluation of controls and control structure are the auditor's responsibility. Although the auditor may offer advice or recommend action to correct weaknesses, it is management's responsibility to implement corrective action.

Statement on Auditing Standards 109 issued by the Auditing Standards Board defines the second standard of field work as:

“The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.”

The internal auditor is expected to evaluate the internal control structure to obtain reasonable assurance as to the extent the internal controls may be relied upon to ensure accurate information, compliance with laws and regulations, and provide for efficient and effective operations.

The five elements of internal control are:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

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#### Control Environment

Also known as “Tone at the Top”.

The control environment is management’s attitude toward internal control within the organization. Control environment factors include the following:

- Integrity and ethical values
- Commitment to competence
- Participation by the governing body
- Management’s philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resources policies and practices

#### Risk Assessment

This is the entity’s assessment of control risk, not the auditor’s. For financial reporting purposes, the entity should maintain evidence of their assessment of risks, especially as it relates to change within and outside of the organization, in the relevant areas and how the risks were addressed by the organization.

The relevant risks that the auditor and management can assess include:

- Changes in the operating environment
- New personnel
- New or revamped information systems
- Rapid growth
- New technology
- New activities
- Accounting changes/pronouncements

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#### Control Activities

These are the policies and procedures management uses to carry out its overall objectives. Examples of control activities are:

- Budget review (comparison of actual to budget)
- Physical controls (locks on drawers, safes, passwords)
- Segregation of duties (separation of duties between employees allowed to authorize and record transactions from employees responsible for maintaining custody of the assets)
- Information processing

#### Information and Communication

This relates to the accounting system, the underlying transactions, and financial reporting process.

Factors associated with *information* include the following:

- Transaction classes significant to the entity's financial statements such as cash receipts, cash disbursements and payroll.
- How are transactions initiated and classified.
- The accounting process from the initiation of the transaction, to posting in IFAS, to reporting in the financial statements and how the computer is involved in the process.

Factors associated with *communication* include the following:

- Policy and procedure manuals
- Periodic budget to actual reports

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Monitoring

Management monitors the controls it has established to determine whether the design and operation of the controls are adequate and that they are modified as changes in conditions occur.

**Methodology for Assessing Control Risk**

The assessment of control risk is generally conducted in three steps:

**Step One:**

Gather all relevant information related to entity operations, description of the accounting system and organizational structure.

Interview client staff and management.

Perform a system walk through.

**Step Two:**

Flowchart the system.

While flowcharting the process, take note of the following potential weaknesses:

- Transactions not recorded.
- Transactions improperly recorded, classified, valued or authorized.
- Transactions not posted in a timely manner.
- Improper segregation of:
  - Operation from recordkeeping
  - Custody from accounting
  - Custody from authorization
  - Accounting tasks

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Complete internal control questionnaire (see Appendix E, pages 68-98).

Step Three:

A written evaluation of internal control based on the auditor's judgment as to the adequacy of the system. Based on this evaluation, the auditor will be able to ascertain the extent of the substantive tests necessary to meet SAS No. 104 requirement of reducing the level of audit risk to "low".

**Determining Detection Risk**

Detection risk is the risk that audit procedures used by the auditor will not detect material misstatement in the financial statements. Detection risk measures the effectiveness of an audit procedure.

$$\textit{Acceptable Audit Risk (AR) Low} = \textit{Inherent Risk (IR)} \times \textit{Control Risk (CR)} \times \textit{Detection Risk (DR)}$$

After considering the level to which the auditor seeks to restrict the risk of a material misstatement in the financial statements and the assessed levels of inherent risk and control risk, the auditor performs substantive tests to restrict detection risk to an acceptable level.

The audit division utilizes a Risk Assessment Worksheet to assess the entity's inherent, control and detection risk (see Appendix G, pages 101-103).

**Preparing the Audit Program**

The internal audit program is a guide for the auditor to perform certain audit steps. The audit steps are designed to (a) gather audit evidence and (2) permit the internal auditors to express opinions on the efficiency, economy and effectiveness of the activities to be reviewed. The program lists procedures for the examination and evaluation of the records needed to meet audit objectives within the scope of the audit assignment.

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The audit program is the link between audit planning and audit fieldwork. In the planning phase the auditor identifies operating objectives, risks, operating conditions, and controls. In the fieldwork phase, the auditor gathers evidence about the effectiveness of control systems, the efficiency of operations, the accomplishment of objectives, and the effect of risks on the organization.

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Chapter 5

Performing the Audit

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Audit Fieldwork

Statement on Auditing Standards No. 110 states the third standard of fieldwork requires the auditor to “obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.”

Based on the audit risk assessment, “the greater the risk of material misstatement, the more audit evidence the auditor should obtain that controls are operating effectively.”

In determining if audit evidence is competent, it must be both valid and relevant. Statement on Auditing Standards No. 31 states that the following presumptions may be useful in assessing the validity of audit evidence:

- Audit evidence is more reliable if it is obtained from an independent source.
- The more effective the internal control, the more reliable the evidence.
- Evidence that the auditor obtains directly through physical examination, observation, computation and inspection is more persuasive than information obtained indirectly.

Sufficient competent evidential matter is obtained through the completion of substantive audit procedures outlined in the audit program. There are two general classes of substantive tests:

- Tests of detailed transactions and account balances.
- Analytical review of significant ratios and trends and the resulting investigation of unusual fluctuations and questionable items.

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Audit Procedures

The six regularly used methods of fieldwork are:

- Observation
- Inquiry
- Verification
- Investigation
- Analysis
- Evaluation

Observation

Observation is the process involved in obtaining an understanding of an entity's organization structure, operations, and practices. These observations should be documented in notes, diagrams, or charts. Observation alone is not enough; it must be confirmed through analysis or verification.

Inquiry

Auditors perform interviews and ask questions of the entity throughout the entire audit process. Good oral communication skills assist in getting accurate and meaningful information from the interviewee. Auditors should use open-ended questions when possible. Depending on the type of information received in an interview, it may need to be confirmed through documentation.

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Verification

Verification is the confirmation of such things as: Assets, records, statements, documents, compliance with laws and regulations, effectiveness of internal controls, transactions and processes. Verification techniques include the following:

- Count -- used to verify the accounting records of physical assets.
- Compare -- used to verify similar or different characteristics from more than one source. For example, comparing year to year actual data, comparing budgets to actual data, comparing written policies to procedures, or comparing laws and regulations to the accounting records for compliance.
- Examine -- verify that transactions are properly authorized, that supporting documentation exists and that the supporting documentation accurately reflects the transaction that occurred.
- Inspect -- to verify the existence and quality of physical assets or transactions.
- Foot -- to recompute the mathematical result of addition or subtraction of columns or rows of numbers in documents or records.
- Recompute -- to check mathematical computations performed by others.
- Reconcile -- the process of matching two independent sets of records. For example, the beginning and ending balances in an account could be reconciled to document the transactions that account for the change between the beginning and the ending balances.
- Confirm -- to obtain information from an independent source.
- Vouch -- to verify recorded transactions or amounts by examining supporting documents. In vouching, the direction of testing is from the recorded item to supporting documentation. The purpose for vouching is to verify that recorded transactions represent actual transactions.

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- Trace – tracing procedures begin with the original documents and are followed through the system to the accounting records. In tracing, the direction of testing is from supporting documentation to the recorded item. The purpose of tracing is to verify that all actual transactions have been recorded.

Investigation

Audits imply objectivity. Investigating implies a systematic track down of information. Investigations seek to establish evidence of impropriety.

Analysis

Analyzing means breaking down an entity into its parts observing trends, making comparisons and isolating unusual transactions or conditions. It means studying in detail functions, activities, or transactions to determine the relationships between the individual parts.

Evaluation

Evaluation implies professional judgment. It is the step between analysis and verification and the audit opinion. It requires weighing what has been analyzed and determining its adequacy, efficiency and effectiveness.

Throughout the audit process, the auditor should alert the appropriate level of management should any areas of concern arise so that the entity may address it prior to the completion of the audit.

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**Audit Sampling**

Statement on Auditing Standards No. 111 provides guidance to the auditor in applying audit sampling strategy to examine less than 100% of the items in a given population. There are generally two approaches to audit sampling: statistical sampling (quantitative) and non-statistical sampling (non quantitative). As stated previously, the third standard of fieldwork requires the auditor to “obtain sufficient appropriate audit evidence” and either sampling method can provide sufficient audit evidence.

Auditor judgment is required when working with both statistical and non-statistical sampling and the following factors should be taken into consideration:

- The relationship of the sample to the specific audit objective to be achieved.
- The level of materiality.
- The auditor’s assessment of acceptable risk (low).
- The characteristics of the population, i.e., what makes up the amounts in the account or the types of transactions.

The sample selection should be representative of the entire population.

Statistical Sampling Methods:

- 1) Random Sampling – The auditor selects a random sample using a random number generator and selecting items to be tested by matching the random numbers to the items in the population.
- 2) Interval Sampling – A method where items are selected from the population at a uniform interval. For example, select every fifth item in the desired sample size.

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- 3) Stratified Sampling – When wide variations in a population are identified, for example, there are a few items over \$1,000,000 and hundreds of items below \$1,000, the population is broken down between the two sub-populations called the stratum. The largest or more significant items may be 100% examined if the sub-population is small enough or it can be examined by a separate random sample. A separate random sample of the other stratum (lower dollar value items) may then be made and the results of all the samples combined.
- 4) Cluster Sampling – The population is subdivided into groups called clusters so that there is a small variability within clusters and large variability between clusters. Each cluster becomes a sampling unit.
- 5) Computer Sampling – using audit software, such as ACL (currently unavailable in the Imperial County Auditor’s Office).

**Non-Statistical Sampling Method:**

Judgment Sampling – Involves selecting sample items based on the auditor’s personal reasoning or suspicions. The degree to which the judgment sample represents the population cannot be documented and therefore, should not be used to make a representation about the population as a whole.

An explanation of the sampling methodology used and the specific process employed in selecting the sample should be documented in the audit workpapers under the work performed section.

**Evaluating the Results:**

The auditor should project any misstatements found in the sample to the population from which it was selected and give adequate consideration to the misstatements discovered. The nature and cause of the misstatements should be considered including (1) are the misstatements material to the overall financial statement results, (2) caused by error or fraud, and (3) are they due

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to misunderstanding of instructions, carelessness, intentional failure to follow procedures, or other factors. Fraud would be of more concern to the auditor than an error.

Additional audit work may be necessary to quantify the materiality of the errors and the frequency of their occurrence. Should this be necessary, the internal auditor may want to discuss the situation with the Audit Manager prior to starting any additional audit procedures.

**Audit Workpapers**

Audit workpapers should be prepared in a manner necessary to adequately support the work performed (second and third standard of fieldwork), conclusions reached concerning significant matters, and planning and supervision of the audit (first standard of fieldwork).

There are two types of audit workpapers – audit workpapers and permanent workpapers.

Audit workpapers are the records maintained by the auditor of the procedures applied, the tests performed, the information obtained and the conclusions reached. Flowcharts, questionnaires, confirmations, interviews, memos, schedules, and analysis are all considered audit workpapers. Audit workpapers are the primary evidence of the auditor's work and provide proof of the professional care and supervision exercised during the audit.

Permanent workpapers are the repository for administrative and operational documentation of an audit entity. Information included in the permanent files should be information that cannot be feasibly included in the workpapers due to volume or format or because the information will assist auditors in the future.

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Examples of permanent workpapers are:

- Background data
- Laws and regulations
- Resolutions of the governing board
- Policies and procedures
- Organizational charts
- Long term contracts and agreements
- Correspondence of a permanent nature

## Format of Audit Workpapers

To ensure quality and consistency in the preparation of audit workpapers, the following should be included in every workpaper:

**Headings:**

Workpaper number – The workpaper number is an alpha numeric and should be placed in the upper right hand corner of each audit workpaper using a red pencil. The alpha should correspond to the audit step identified in the audit program and the number indicates the number of pages comprising that audit procedure (e.g. A-1, A-2, A-3...).

Initials and Date – The auditor/reviewer should initial and date each workpaper upon completion of the audit procedure/review in the upper right hand corner below the audit workpaper reference.



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Heading – Centered across the top of the page the heading should include (in the order listed):

- Imperial County
- Name of Entity/Project/Department
- Descriptive title of the workpaper/audit procedure
- Audit date or audit period covered

The complete heading should be included on each workpaper page.

## Cover Page:

The following should be included on the first page of every audit procedure performed in the audit program:

### Objective:

Is a broad statement that defines the intended purpose of completing an audit procedure. An example would be:

*To obtain reasonable assurance that expenses have been properly authorized, classified and recorded in the correct accounting period in the ledgers.*

### Scope and Methodology:

The scope defines the depth and coverage of the audit work to be performed and defines the internal controls the auditor would expect to find regarding the process the auditor is auditing. The methodology broadly defines how the auditor will obtain reasonable assurance as to the extent the internal controls may be relied upon to ensure accurate information, compliance with laws and regulations, and provide for efficient and effective operations. An example would be:

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*An adequate system of internal control over expenditures is achieved through the adequate separation of responsibilities for 1) initiating or approval of transactions, 2) custody of assets, and 3) record keeping. Every transaction should involve; 1) authorization, 2) approval, 3) execution, and 4) recording. During the audit period July 1, 20XX through June 30, 20XX there were 35 claims issued. The audit staff examined 10 of these claims to obtain reasonable assurance that the entity had adequate control over these transactions.*

#### Work Performed:

Details the work performed, the attributes to be tested, the scope of the audit procedures, the number of transactions examined and the basis for selecting the transactions. An example would be:

*During the audit period there were 35 claims issued. Ten claims were selected to test by using interval sampling. Every 3<sup>rd</sup> claim was selected starting with the 5<sup>th</sup> claim issued. The following testing criteria were used:*

- a) Purchase order (if applicable) approved by an authorized official (compare to authorized signature list of entity).*
- b) Invoice was approved for payment by an authorized official (compare to authorized signature list of entity).*
- c) Warrant picked up by authorized persons (compare to authorized signature list of entity).*
- d) Proper supporting documentation attached to the claim (purchase order, receiving documents...).*
- e) Were invoices paid to vendors in a timely manner (within 30 days).*
- f) Was proper account coding used, traced to ledgers.*

*The claims were selected from the IFAS ledger for the audit period July 1, 20XX through June 30, 20XX and the claims were viewed in Questys.*

#### Source of Data:

The specific source documents or individuals involved in this audit procedure. The last name and title for each individual should be noted.

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Results and Conclusions:

The results of the audit tests performed such as the number and type of exceptions for each attribute tested. Quantifying the results assists in determining the level of concern the auditor should have about the exceptions. The auditor should gain an understanding as to why these exceptions occurred. Also, any discussions with the staff or management should be documented.

The conclusion is the evaluation of the results to determine if the objective for this audit area was achieved.

**Audit Workpapers – Testing:**

Audit tests should be done using a columnar format whenever possible.

**Audit Workpapers – Cross Referencing:**

All workpapers should be properly cross-referenced using a red pencil in the direction which follows the flow of the audit workpapers.

When referencing **to** another audit workpaper, place the complete page reference to the **right** of the item.

When referencing **from** another audit workpaper, place the complete page reference to the **left** of the item.

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**Audit Workpapers – Tick marks:**

Tick marks are footnotes represented by a symbol. They indicate procedures performed on specific items in a workpaper. Tick marks must be fully explained, simple and be in red pencil. There should be no marks on workpapers that do not have a definition.

**Audit Workpapers – Retention Period:**

The audit workpaper retention period is as follows:

- Special Districts – 5 fiscal years
- Departments/financial audits – 5 fiscal years

**Permanent Workpapers:**

Permanent workpapers should be placed in a permanent file established at the inception of each new engagement.

An index should be at the beginning of the permanent file referencing the workpapers in the file.

Each workpaper in the permanent file shall include the following:

- Heading – the heading should include:  
Name of client  
Descriptive title of the document
- Source – where the document came from and the first and last name and title for each individual who provided the workpaper or information should be noted.

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- Workpaper number – The workpaper number is an alpha numeric and should be placed in the upper right hand corner of each audit workpaper using a red pencil (e.g. A-1, A-2, A-3...). The number should correspond to the permanent file index.
- Initials/Date – The auditor/reviewer should initial and date each workpaper upon completion of the audit procedure/review in the upper right hand corner below the audit workpaper reference.

**Workpaper Ownership:**

All workpapers are the property of the Imperial County Auditor-Controller's office and may not be reviewed without the prior approval of the Auditor-Controller. If the Auditor-Controller allows the workpapers to be reviewed, they will be made available for review in the presence and control of an auditor.

**Overall Workpaper Presentation:**

Audit workpapers must be neat, organized and concise. Auditor's must remember that their workpapers should stand alone, speak for themselves, and not require oral explanation.

Below are some do's and don'ts of audit workpapers:

- Do not include documents in audit workpapers that can easily be obtained from other sources, i.e. IFAS ledger printouts or Questys documents.

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- Keep workpapers simple and easy to follow.
- Each column in a schedule should include a proper heading (description, scope, units, etc.).
- Write concisely and legibly. Use good grammar and sentence structure.
- Keep all workpapers the same size.
- Do not have any unexplained tick marks.
- Sources of data should be clearly identified.
- Eliminate any confidential information from audit workpapers (social security numbers).

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Chapter 6

Concluding the Audit

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Attorney Letter

Statement on Auditing Standards No. 12 provides guidance for identification of litigation, claims and assessments that should be reflected in the financial statements. Near the conclusion of the fieldwork and before the audit report is issued, the auditor should obtain a letter of audit inquiry from the client's attorney. An example of an Attorney Letter is in the Appendix H, pages 104-106. (*Special Districts Only*)

Commitments and Contingencies

Commitments represent the entity's intention to purchase a specific product or service. Contingencies represent potential liabilities to the governmental entity should certain events occur.

Commitments and contingencies can be identified by performing the following procedures:

- Read the government entity's minutes
- Review contracts and purchase orders
- Inquire of management
- Attorney representation letter

Inquire of management concerning the existence and amount of contingent liabilities using the *Search for Commitments and Contingencies Form* in Appendix I, pages 107-108. (*Special Districts Only*)

Subsequent Events

Subsequent events are any events or transactions that occur after year end that have an important bearing on the financial statements. Statement on Auditing Standards No. 1 identifies two types of subsequent events:



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- Events that provide additional evidence with respect to conditions that existed at the balance sheet date and affect the estimates inherent in the process of preparing the financial statements. For example, if a settlement of litigation occurred after the balance sheet date for an amount different from the liability recorded in the accounts at the balance sheet date would require adjustment in the financial statements.
  
- Events that provide evidence with respect to conditions that did not exist at the date of the balance sheet being reported but arose subsequent to that date. These events should not result in an adjustment of the financial statements. Examples of this type of event would be sale of a bond or capital stock issue, purchase of a business, or the loss of a plant or inventories to fire or flood.

Auditors should perform a review for subsequent events from the date of the balance sheet to the date of the auditor's report (the completion of fieldwork) using the *Search for Subsequent Events Form* in Appendix J, page 109. (*Special Districts Only*)

**Related Party Transactions**

A related party transaction occurs when one party to a transaction has the ability to impose contract terms that would not have occurred if the parties had been unrelated. Related parties consist of all affiliates of an entity, including 1) management and their immediate families, 2) its principal owners and their immediate families, 3) any party that may or does deal with the entity and has ownership, control, or significant influence over the management or operating policies of another party to the extent that an arm's length transaction may not be achieved.

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Auditor's should perform a review of related party transactions by using the *Consideration of Related Party Transaction Form* in Appendix K, page 110. *(Special Districts Only)*

**Client Representation Letter**

Statement on Auditing Standards No. 85 states the auditor should obtain a written representation letter from management at the conclusion of the audit. This letter should be prepared by the auditor and typed on the governmental entity's letterhead. It should be dated on the last day of fieldwork.

If the governmental entity refuses to sign the written representation letter, this would be a scope limitation requiring qualification of the audit report.

An example of a client representation letter is in Appendix L, pages 111-120. *(Special Districts Only)*

**Going Concern**

Before finalizing the audit, the auditor should be able to form a definite opinion on whether there is "substantial doubt" about the client's ability to survive for one year from the balance sheet date. Some indications of a going concern problem would be:

- Nonpayment of bond principal when due
- Nonpayment of payroll for employees
- Nonpayment of payroll taxes
- Loss of government grants
- Declining tax base

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If there could be substantial doubt about the client's ability to continue as a going concern the auditor should complete the *Going Concern Checklist* in Appendix M, pages 121-124. (*Special Districts Only*)

An example of a separate paragraph in the auditor's report required *after* the opinion paragraph regarding the entity's ability to continue as a going concern is in Appendix N, page 125. (*Special Districts Only*)

### Final Analytical Review

The final analytical review involves 1) determining that all unusual or unexpected matters or relationships in the financial statements have been explained and 2) the financial statements make sense from the point of view of the users of the financial statements. The auditor should conduct the review after all adjustments have been posted to the financial statements.

### Workpaper Review

The final review of the workpapers is completed in three stages: 1) a detailed review is performed by the Audits & Systems Manager, 2) after the Audits & Systems Manager signs off, it is routed to the Assistant Auditor-Controller, and 3) a final overall review is performed by the Auditor-Controller before he signs the report.

The objectives of a detailed review include:

- Ensuring that workpapers agree with the final report issued.
- Ensuring that all auditors' reports have been properly prepared.
- Ensuring that required audit procedures has been adequately performed and completed. Determine that the workpapers adequately document the conclusions reached.

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- Ensuring that all findings have been discussed with the appropriate level of management and the discussion documented.
- Verify that workpapers have been indexed and cross-referenced to the audit program and other workpapers.
- Make certain workpapers are legible and relevant.
- Make certain workpapers are prepared in compliance with Auditor-Controller policy for workpapers.
- Verify that all questions are satisfactorily answered and open items resolved.

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Chapter 7

The Audit Report

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**Report Format**

The audit report has three major purposes; to inform, persuade and promote action. Described below is the format that should be followed when preparing the audit report.

**Cover page**

The cover page includes the county logo, title of report, audit period, and the Auditor-Controller's name and title.

**Index**

**Date of the Report**

The report should be dated as of the last day of fieldwork.

**Addressee**

The report should generally be addressed to the Board of Supervisors and the department head.

**Auditor Letter**

Internal audits and audits performed for an outside agency, the auditor letter will include that the audit was performed "in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States."

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Audits performed for outside agencies will include any additional reporting as required by the agency (e.g., a special district audit will include a management discussion and analysis, a grant audit will include a report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with government auditing standards).

### Executive Summary

The executive summary includes an overview of the entity, the overall objective of the audit, and the overall conclusion as to the effectiveness of the entity's internal controls.

### Objectives and Methodology

The audit objective generally is to evaluate the existence and adequacy of internal controls over the entity's operations.

The methodology discusses what procedures were employed to achieve the audit objective.

### Audit Findings

The auditor should discuss with management their findings prior to writing about them. This allows the auditor to clarify their understanding of the conditions found, and the opportunity to work with management on a recommendation that will result in successfully resolving the finding.

#### Title:

Each audit finding should be titled and the title should be informative and give the reader a reason to want to read the finding.

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Results:

The results provide the reader with general information relevant to the situation that prompted the auditor to write the finding.

Elements of a Finding:

There are five elements to an audit finding:

- Condition
- Effect
- Cause
- Criteria
- Recommendation

Condition:

What is the problem? The “condition” reports the facts determined by the internal auditor’s observation, inquiries, analysis, verification, and investigation. The condition should be limited to one or two sentences and should be compelling enough to make the reader continue reading.

Effect:

Why should the reader care? If possible, the condition should be quantified. For example, if the condition is overtime is not being paid accurately, the condition can be quantified by stating how much the overtime was over or under paid.



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Cause:

Why did the condition happen? To understand the condition is to understand why it happened. If overtime is not being paid accurately, it may be related to lack of knowledge of county ordinances regarding the paying of overtime or that the ordinance does not clearly explain the overtime policy.

Criteria:

What should be done? Criteria are identified as the standard against which the auditor is measuring the questioned condition. Published criteria may be quoted, such as laws, regulations, adopted policies, ordinances, and contracts.

Recommendation:

How do we resolve the condition and cause? Recommendations are geared toward management and provide management with a guide to resolving the condition. It is management's responsibility to correct the condition. Workable solutions can be arrived at by obtaining input from management.

**Exhibits**

Exhibits should be relevant to the report subject matter or included if required by an outside agency (for example, many outside grant agencies require balance sheets).

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**Review of Workpapers and Audit Report**

Quality control of audit work is maintained through the review process.

- Reports and workpapers will be reviewed by the audit manager and returned to staff with review notes within 7 working days.
- Completion by the audit staff of the review notes should generally not exceed 10 working days.
- The audit manager will clear the review notes within 5 working days of receiving the revised product.
- The audit manager will review the final product.

Audit review notes should be retained in the audit file.

After the final draft audit report is cleared by the audit manager, it is provided to the Assistant Auditor-Controller for review. Once the Assistant Auditor-Controller completes his review and approves it, the final draft audit report will be forwarded to the Auditor-Controller for his authorization to release to the department, office or agency for their response.

**Audit Exit Conference**

It is the policy of the Imperial County Auditor-Controller to have the department, office or agency audited respond to the audit report prior to its release. The draft audit report will be issued to the client for their review for a 10 day period. An audit exit conference will be scheduled at the end of the 10 day period. After the audit exit conference, the department, office or agency shall prepare and submit a response to the draft audit report within 15 business days.

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Every audit concludes with an exit conference. The auditor should arrange the meeting in writing and submit the request for the meeting to management upon issuance of the draft audit report.

The audit manager and auditor will attend the exit conference.

Findings should be well organized with working papers readily available to answer questions.

Document any client questions that remain unresolved at the exit conference. At the conclusion of the conference, the client should be informed of when their response to the audit report should be submitted.

Changes to the audit report may result from the exit conference. Once the revisions are made, the revised draft audit report will be submitted to the client.

**Final Report Distribution**

After the client has responded to the audit report, the auditor issues the final report.

The distribution of the report is as follows:

Board of Supervisors	11 copies plus original double sided
Department Head	1 bound copy
District Attorney	1 bound copy (be sure to have DA's office stamp our copy)

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Auditor-Controller	1 unbound copy
Assistant Auditor-Controller	1 unbound copy
Audits & Systems Manager	1 unbound copy

Once the report is accepted by the Board of Supervisors, the bound workpaper file should be filed in the back room.

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Chapter 8

Audit File

Organization of the Audit File

Pages 59-61

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Organization of the Audit File

Audit File Index

The audit file index provides a guide to organizing the audit file.

The audit file index is in Appendix O, page 126.

Routing Sheet

A routing sheet must be completed for all completed audits. A sample routing sheet is in Appendix P, page 127.

Final Audit Report

This is the final audit report that is submitted to the department and Board of Supervisors.

Department Response

The response provided by the department, office or agency to the audit report must be on department, office or agency letterhead and signed by the department, office or agency head.

Draft Audit Reports

Drafts should be marked by version and maintained in the audit file.

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### Draft Audit Review Notes

Audit review notes made by the audit manager, assistant auditor-controller and auditor-controller on the audit, must be maintained in the audit file. They are not to be removed or filed separately.

### Correspondence and Meeting Summaries (entrance/exit conferences etc.)

Audit engagement letters, attorney letters, client representation letters, emails, memorandums, meeting summary sheets should be placed in this section of the audit file.

### Recommended Audit Follow Up

After the audit exit conference and receiving the response to the audit findings, the auditor should include a recommendation as to what follow up measures if any are necessary. This may be in “memo to file” form.

### Audit Program, Workpaper Index, and Time Sheet

As each audit procedure of the *audit program* is completed, the workpaper reference, auditor initials and date the audit work was completed should be entered.

The *workpaper index* should include a description of each workpaper and the references for each.

The *time sheet* (see Appendix Q, page 128) should report time spent by the auditor on each audit procedure from the moment preliminary work is begun right through to the issuance of the final audit report.

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Audit Workpapers

The audit workpapers should be organized and separated by audit procedure performed as listed in the audit program.



# Appendix A

Imperial County  
Internal Audit  
County Department Risk Assessment Survey  
Fiscal Year 20XX-XX

<u>Risk Assessment Question</u>	<u>Yes</u>	<u>No</u>
1. Has your Department had any changes in key personnel/ positions in your organization during the past fiscal year? If yes, please explain. <hr/> <hr/> <hr/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Has your Department implemented any new systems, programs, or processes during the past fiscal year that have a significant impact on your department's operations? If yes, please explain. <hr/> <hr/> <hr/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Has your Department experienced rapid or unexpected growth in services provided during the past fiscal year that had a significant impact on your department's operations? If yes, please explain. <hr/> <hr/> <hr/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Has your Department had any material losses in funding during the past fiscal year? If yes, please explain the effect this has had on your operations. <hr/> <hr/> <hr/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Has your Department been impacted by new regulations during the past fiscal year that required significant changes in your department's operations? If yes, please explain. <hr/> <hr/>	<input type="checkbox"/>	<input type="checkbox"/>

# Appendix A

Imperial County  
Internal Audit  
County Department Risk Assessment Survey  
Fiscal Year 20XX-XX

<u>Risk Assessment Question</u>	<u>Yes</u>	<u>No</u>
6. Has your Department incurred any fraud or misappropriations of County assets during the past fiscal year? If yes, please explain.	<input type="checkbox"/>	<input type="checkbox"/>
<hr/> <hr/> <hr/> <hr/>		
7. Does your Department have written policies and procedures for the initiation and processing of transactions by employees? If yes, please explain.	<input type="checkbox"/>	<input type="checkbox"/>
<hr/> <hr/> <hr/> <hr/>		
8. Please identify 2-3 areas of audit interest within your Department and why they are of audit interest. These areas can be systems, functions or programs involving financial/business processes, information technology, program administration or other compliance/regulatory activities critical to your department's operations. NOTE: Suggested areas of audit interest will be considered for inclusion in future Audit Plans. The Internal Audit Division of the Auditor-Controller conducts a limited number of audits each year based on its annual risk assessment.		
<hr/> <hr/> <hr/> <hr/>		

## APPENDIX B

**Imperial County  
[Client]  
Audit Planning Questionnaire  
For the fiscal year ended June 30, 20XX**

		Yes	No	Comments
1.	Have there been any changes in the entity's primary activities, programs, and services since the last audit?			
2.	Have there been any economic conditions or other recent developments that have affected or may affect the entity's operations?			
3.	Are there any new regulatory or reporting requirements that apply to the entity that could impact the financial statements?			
4.	Have there been any significant changes in the manner in which the entity keeps its fiscal records (e.g., new computer system, new employee) since the last audit?			
5.	Have there been any significant changes in the entity's policy(ies) and procedures for key transaction cycles since the last audit?			

## APPENDIX C

### Imperial County [Client] Fraud Risk Identification Form For the fiscal year ended June 30, 20XX

		Yes	No	Comments
1.	Is management's compensation or performance assessment dependent on budgetary goals or other incentives?			
2.	Do conditions exist that indicate a failed management attitude regarding internal controls and the reporting process?			
3.	Do other conditions indicate a motivation for management to engage in fraudulent reporting?			
4.	Are there any new accounting, statutory, or regulatory requirements that could affect the district's operations?			
5.	Do industry conditions indicate risk factors that could provide a motivation for fraudulent financial reporting?			
6.	Is the organizational structure within the district overly complex?			
7.	Is the district having difficulty in generating cash flows from operating activities?			
8.	Are assets, liabilities, revenues, or expenditures based on estimates that involve subjective judgments or uncertainties?			
9.	Do operating characteristics and financial status indicate risk factors that could provide a motivation for fraudulent financial reporting?			
10.	Are large amounts of cash or cash equivalents maintained or processed?			
11.	Are large amounts of inventory or other small assets susceptible to misappropriation?			
12.	Do any conditions exist that indicate possible motivation for misappropriation of assets?			
13.	Does a lack of management oversight over assets exist?			
14.	Does inadequate recordkeeping over assets exist?			
15.	Does a lack of segregation of duties exist that is not mitigated by other factors?			
16.	Does a lack of an appropriate system for authorizing and approving transactions exist?			
17.	Are there poor physical safeguards over assets exist?			

## APPENDIX D

### *Sample Audit Engagement Letter*

June 25, XXXX

Mr. John Doe, Director  
Planning and Community Economic Development  
801 Main Street  
El Centro, CA 92243

Dear Mr. Doe:

We are pleased to confirm our understanding of the services we are to provide to the Imperial County Planning and Community Economic Development Department for the year ended June 30, XXXX. We will conduct an audit of the financial records for organization keys 1035001, 1041001 and trust funds under the direction of the Planning and Community Economic Development Director as of and for the year ended June 30, XXXX.

#### **Audit Objectives**

An audit is an objective and systematic examination of evidence for purposes of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and will include tests of the accounting records and other procedures we consider necessary to enable us to express an opinion.

#### **Management Responsibilities**

We understand that you will provide us with information required for our audit and that you are responsible for the accuracy and completeness of that information. You are responsible for the establishment and maintenance of adequate records and effective internal controls, the selection and application of accounting principles, and the safeguarding of assets. You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations.

## APPENDIX D

### *Sample Audit Engagement Letter*

**Audit Procedures:**

We will plan and perform the audit to obtain reasonable rather than absolute assurance about the achievement of the stated audit objectives.

Because an audit is designed to provide reasonable, but not absolute, assurance, there is a risk that material errors may exist and not be detected by us. However, we will inform you of any material errors that come to our attention, and we will inform you of any fraud or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility, as auditors, is limited to the period covered by our audit and does not extend to matters that might arise during any later period for which we are not engaged as auditors.

**Audit Timing:**

Audit staff is expected to begin fieldwork on Monday, July 2, XXXX, and anticipates completing the fieldwork by Tuesday, July 17, XXXX.

If this letter correctly expresses your understanding of the audit, please sign below in the space provided and return it to us at your earliest convenience.

Sincerely,

Jane Doe  
Audits & Systems Manager

---

**RESPONSE:**

The terms of this letter constitute our contract. I have read it and fully understand its terms and provisions.

Accepted by: \_\_\_\_\_

Name (please print): \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

APPENDIX E

**Imperial County  
Office of the Auditor-Controller  
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Internal Control Questionnaire

Department:	Org Key:
Period Covered	

Date of Interview:
--------------------

Person Interviewed:
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Response	Comments
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**Control Environment:** The control environment sets the tone of an organization influencing the control consciousness of its people. Control environment factors include the following:

- Integrity and ethical values
- Commitment to competence
- Management's philosophy and operating style
- Organization structure
- Assignment of authority and responsibility
- Human resources policies and practices

1.	Is the government unit's organizational structure appropriate for the size and complexity of the entity?		
2.	Are delegations of authority and responsibility current and in writing?		
3.	Do managers routinely follow up on delegations of authority and responsibility to subordinates?		
4.	Are the reporting relations appropriate?		
5.	Do key managers possess the appropriate knowledge and experience in light of their responsibilities?		

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Internal Control Questionnaire

Department:	Org Key:
Period Covered	

Date of Interview:
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Person Interviewed:
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	Response	Comments
6. Does the government unit have formal job descriptions or other ways of defining particular job tasks?		
7. Have employee job responsibilities, including specific duties, reporting relationships, and constraints been clearly communicated?		
8. Are employees adequately supervised?		
9. Are employees held accountable for performance and results achieved?		
10. Are there related employees with job assignments that create opportunities for collusion?		
11. Are all personnel in a position of trust adequately bonded?		
12. Has a formal code of conduct, including policies on conflicts of interest, been adopted, and are employees required periodically to make a declaration of compliance?		
13. Do accounting personnel have the background, education, and experience appropriate for their duties?		



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Internal Control Questionnaire

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	Response	Comments
14. Are background and references checked for new accounting personnel?		
15. Is adequate training provided for new accounting personnel?		
16. Does previous experience with the Governmental unit indicate competence and integrity on the part of Governmental unit personnel?		
17. Do accounting employees take regular vacations and are duties rotated when employees are on vacation?		
18. Is the turnover of accounting personnel relatively low?		
19. Do written personnel policies exist?		
20. Has management communicated a commitment to strong internal control?		
21. Is management's attitude that overriding or bypassing established controls is acceptable?		

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Internal Control Questionnaire

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	Response	Comments
22. Does the "tone at the top" include explicit moral guidance about what is right and what is wrong and is it established and communicated throughout the organization?		
23. Does management demonstrate a concern for control by performing important internal control procedures such as approvals and regular preparation or review of reconciliations?		
24. Are controls over authorization of transactions established at an appropriate level?		
25. Does the public perceive this organization to be adequately controlled?		
26. Does management have a conservative attitude toward financial reporting?		
27. Does the governmental unit take appropriate action for known departures from approved policies or unacceptable business practices or conduct that might significantly affect the financial reporting process?		

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Person Interviewed:
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Response	Comments
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28. Does it appear that management demonstrates integrity in its everyday dealings with citizens, employees, suppliers and other parties?

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29. Is management satisfied that all employees are honest?

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**Risk Assessment:** An entity's risk assessment for financial reporting purposes is its identification, analysis, and management of risks relevant to the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles. Risks relevant to financial reporting include external and internal events and circumstances that may occur and adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Risk can arise or change due to circumstances such as:

- Changes in the operating environment, new or revamped information systems
- New personnel
- Rapid growth

1. Are there mechanisms to identify and react to changes that can have a more dramatic and pervasive effect on the entity, and may demand the attention of management?

- a. new laws or regulations that affect the entity or its activities?
- b. new or redesigned information systems?
- c. new technology incorporated into the information systems?


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	Response	Comments
2. Do controls exist for approving decisions regarding financing alternatives and accounting principles, practices, and methods?		
3. Has management identified and analyzed entity risks relating to:		
a. changes in the operating environment?		
b. new personnel?		
c. new or revamped information systems?		
d. rapid growth?		
e. new technology?		
f. restructuring?		
g. other operations?		
h. accounting pronouncements?		
4. Has management estimated the significance of the risks relevant to the preparation of financial statements?		
5. Has management taken appropriate steps to manage these risks?		

**Information and Communication:** The information system is relevant to financial reporting objectives, which includes the accounting system, consists of the methods and records established to record, process, summarize, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities and equity. The quality of system-generated information affects management's

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Response	Comments
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ability to make appropriate decisions in controlling the entity's activities and to prepare reliable financial reports.

Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting.

1. Is a budget calendar used for the orderly submission and approval of the budget?		
2. Are budgets prepared for all significant activities regardless of whether mandated by law?		
3. Is the budget prepared in sufficient detail providing a meaningful tool with which to monitor subsequent performance?		
4. Are budgets published if required by law?		
5. Are estimated revenues and appropriations recorded in the accounting records for later comparison to actual amounts realized or incurred?		
6. Are plans and budgets effectively communicated throughout the organization?		

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Person Interviewed:
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	Response	Comments
7. Are actual expenditures compared to budget timely with reasonable (monthly) frequency?		
8. Are reports discussed with departmental personnel and are there explanations for significant variations from budget?		
9. Are all governmental unit policies and procedures clearly stated and systematically communicated (manuals, handbooks, etc.)?		
10. Do the policies and procedures support internal control?		
11. Do procedures exist to ensure that the financial information system has included all transactions applicable to the reporting period?		
12. Do procedures exist to ensure that financial reports are supported by either, underlying account records or other documentation?		
13. Do procedures exist to ensure that only authorized persons can alter or establish new accounting principles, policy, or procedure to be used by the entity?		
14. Are the principle accounting, treasury, and custody functions segregated?		

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Response	Comments
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15. Are there channels of communication for people to report suspected improprieties?
- a. is there an ability to contact someone other than a direct supervisor?
  - b. is anonymity permitted?


16. Is there timely and appropriate follow-up action taken by management resulting from external party communications, such as:
- a. customer complaints?
  - b. notification of errors in billings?
  - c. notification of inappropriate behavior by an employee?


**Control Activities:** Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities relevant to an audit of the entities financial statement are categorized in the following functional areas:

- Imprest Cash (petty cash disbursements)
- Cash in Bank
- Cash Receipts
- Fixed Assets
- Expenditures/Accounts Payable
- Payroll

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Date of Interview:
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Person Interviewed:
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Response	Comments
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**Petty Cash:**

- |  |                      |  |
|--|----------------------|--|
| 1. Are the funds authorized by the governmental unit's governing body?   | <input type="text"/> |  |
| 2. Are the petty cash funds maintained on an imprest basis?  | <input type="text"/> |  |
| 3. Are funds segregated from other cash?   | <input type="text"/> |  |
| 4. Is access to the petty cash restricted by means of a locked cash drawer or box?   | <input type="text"/> |  |
| 5. Does the governmental unit avoid commingling collections with petty cash or revolving funds?                            | <input type="text"/> |  |
| 6. Are the funds restricted as to:   | <input type="text"/> |  |
| a. maximum amount for individual disbursements from the fund?  | <input type="text"/> |  |
| b. maximum amount of disbursements in any one year?  | <input type="text"/> |  |
| 7. Does the size of the petty cash or revolving fund(s) and the expenditure limit meet the needs of the governmental unit? | <input type="text"/> |  |



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	Response	Comments
8. Is responsibility for the petty cash fund assigned to only one person?		
9. Is the custodian independent of employees who handle receipts?		
10. Are the accounting records inaccessible to the custodian?		
11. Does someone independent of the custodian periodically reconcile the petty cash fund?		
12. Is a formal voucher used for all disbursements from the fund? (if no, skip to question 16)		
13. Are vouchers executed in full in ink or otherwise in such manner as to make alterations difficult?		
14. Does a manager or other responsible employee other than the custodian approve vouchers?		
15. Are the amounts of vouchers spelled out as well as written in numerals?		

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Person Interviewed:
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	Response	Comments
16. Are disbursements properly supported by vendor documents?		
17. Are claims for reimbursement authorized by someone other than the fund custodian?		
18. How are warrants for reimbursement of the petty cash or revolving fund(s) made out to the order of the fund custodian?		
19. Is cashing of personal checks prohibited? If not:		
a. Is the amount of each check limited to a specific amount?		
b. Are such checks presented immediately for deposit or payment?		
c. Is there a limitation on frequency of cashing checks?		
d. Are these checks limited to the petty cash fund?		
<b>Bank Accounts:</b>		
1. Are all bank accounts authorized by the governing body of the governmental unit?		
2. Are disbursements made by check?		

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	Response	Comments
3. Are physical and accounting controls over unauthorized use of blank check stock adequate?		
4. Is there a specified custodian for blank check stock?		
5. Are checks pre-numbered and used in sequence?		
6. Are checks prepared by specified employees who are independent of invoice approval?		
7. Do employees preparing checks compare all data on supporting documents to checks?		
8. Are all checks or check requests approved for payment by the check signer or other responsible employee?		
9. Are checks recorded in the disbursement journal as prepared?		
10. Is a check protector used?		
11. Are voided/spoiled checks properly mutilated and retained?		

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	Response	Comments
12. Does the government body of the governmental unit authorize check signers?		
13. Are authorized check signers independent of:		
a. cash receipts and petty cash?		
b. purchasing and receiving?		
c. timekeeping for payroll checks?		
14. Are the banks notified when a new signer is authorized or a previous signer leaves the employ of the entity?		
15. Are two signatures required on checks over a stated amount?		
16. Is the signer furnished with invoices and supporting data and are they reviewed prior to signing the check?		
17. Are all supporting documents properly cancelled at the time of signature to prevent duplicate payment?		
18. Is there control over the signature stamps used to sign checks?		

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Person Interviewed:
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	Response	Comments
19. Is the drawing of checks to cash or bearer prohibited?		
20. Is signing blank checks forbidden?		
21. Is custody of checks after signature and before mailing handled by an employee independent of all payable, disbursing, cash, receiving, and general ledger functions?		
22. Are there adequate controls over non-check disbursements such as debit memos and wire transfers (passwords, bank callback verifications exceeding predetermined dollar amount)?		
23. Are there adequate procedures for approving and recording interbank transfers?		
<b>Bank Reconciliations:</b>		
1. Are bank accounts reconciled promptly after the end of each month?		
2. Are reconciliations made by someone other than the person(s) who receipt or disburse cash?		

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	Response	Comments
3. Are bank statements and paid checks delivered in unopened envelopes directly to the employee preparing the reconciliation?		
4. Are all reconciliations and investigations of unusual reconciling items reviewed and approved by an official who is not responsible for receipts and disbursements?		
5. Do the reconciliation procedures for all bank accounts include the following, with respect to deposits:		
a. Comparisons of dates and amounts of daily deposits as shown on the bank statements with the governmental unit's records?		
b. Investigation of bank transfers to determine that both sides of the transactions have been properly recorded in the governmental unit's record?		
c. Deposits or collection items subsequently charged back by the bank?		
6. Do the reconciliation procedures for all bank accounts include the following, with respect to disbursement:		
a. Comparison of cancelled checks with the check register or disbursement journal as to number, date, payee and amount?		

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Internal Control Questionnaire

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Date of Interview:
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Person Interviewed:
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	Response	Comments
b. An accounting of the sequence of check numbers?		
c. Examination of cancelled checks for authorized signature(s), irregular endorsements, and alterations?		
7. Does a responsible organization official review completed bank reconciliations?		
8. Are checks outstanding for a considerable time periodically investigated and when applicable is payment stopped, and an entry made to restore amount to cash in the government unit's records?		
<b>Cash:</b>		
1. Does the governmental unit receive cash and checks directly from others? (If no, skip this functional area/section.)		
2. Are collections controlled by cash register, pre-numbered receipts, or other equivalent means if payments are made in person?		

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Internal Control Questionnaire

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Period Covered	

Date of Interview:
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Person Interviewed:
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	Response	Comments
3. Are numerical sequences of cash receipts (manual) accounted for?		
4. Are all checks restrictively endorsed immediately upon receipt?		
5. Are receipts accounted for and balanced to collections on a daily basis?		
6. Do facilities exist for adequately safeguarding undeposited cash receipts?		
7. Are all collections deposited on a timely basis (preferably daily)?		
8. Are all collections deposited intact?		
9. Do controls exist over the collection, timely deposit, and recording of collections for any remote collection location?		
10. Are post-dated checks, disputed items, unidentified receipts, NSF checks, checks charged back by banks, and similar items subject to normal receipt control, and received and investigated by persons independent of deposit preparation?		



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Person Interviewed:
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Response	Comments
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**Fixed Assets:**

**Acquisitions:**

1. Does the governmental unit have a formal capitalization policy?

2. Are purchases of fixed assets formally approved by the governing body or other responsible official?  
If other, include name/title in comments.


3. Are fixed asset additions recorded in the board minutes?

--	--

4. Do controls exist to:

- a. distinguish between capital and operating expenditures?
- b. distinguish between capital and operating leases?
- c. ensure all costs associated with acquiring the fixed assets are capitalized?


**Dispositions:**

5. Is authorization by the governing body or other responsible official required for the sale or retirement of fixed assets?  
If other, include name/title in comments.


6. Are fixed asset deletions recorded in the board minutes?

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Person Interviewed:
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Response	Comments
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7. Does the governmental unit properly dispose of all surplus equipment?

--	--

8. Are all proceeds from the sale of fixed assets deposited into the county treasury?

--	--

**Physical Control and Safeguards**

9. Are detailed records maintained for all purchases, donated, self-constructed, or leased assets?

--	--

10. Is accountability for fixed assets at each location properly established?

--	--

11. Is equipment properly identified by metal numbered tags or other means of positive identification?

--	--

12. Is a physical inventory of fixed assets performed on an annual basis?

--	--

13. Are responsibilities for the periodic physical inventories of capital assets assigned to responsible officials who have no custodial or record keeping responsibilities?

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Internal Control Questionnaire

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Date of Interview:
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Person Interviewed:
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	Response	Comments
14. Are discrepancies between the physical inventory and the fixed asset listing reported and resolved promptly?		
15. Are items adequately safeguarded from loss due to fire, theft or misplacement?		
16. Are fixed assets adequately insured?		
17. Are periodic reviews and appraisals made relative to insurance considerations?		
18. Is the use of fixed assets by individuals for personal use prohibited?		
19. Are fixed assets loaned to other governmental agencies only upon approval of the governing body?		
<b>Expenditures/Accounts Payable:</b>		
1. Who is responsible to make purchases on behalf of the entity?		
2. Is there a current purchasing policies and procedures manual?		

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Date of Interview:
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Person Interviewed:
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	Response	Comments
3. Are competitive bids required and bid copies retained on file?  Indicate threshold in comment section.	<input type="text"/>	<input type="text"/> <input type="text"/>
4. Are purchases made in accordance with applicable legal requirements (e.g. public contract law)?	<input type="text"/>	<input type="text"/>
5. Do personnel independent of payables disbursing, perform the purchasing function, and cash receipts functions?	<input type="text"/>	<input type="text"/>
6. Are steps taken to ensure that goods received are accurately counted and examined prior to approving for payment?	<input type="text"/>	<input type="text"/>
7. Are governmental unit representatives aware of the need to obtain and forward proper documentation to support payments to vendors and employees?	<input type="text"/>	<input type="text"/>
8. Are claims for payment for vendor invoices approved by the governing body or some other responsible governmental unit official?  If other, include name/title in comment section.	<input type="text"/>	<input type="text"/> <input type="text"/>

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Person Interviewed:
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	Response	Comments
9. Does the individual(s) review applicable supporting documents prior to authorizing payment?		
10. Is the payment of expenditures recorded in the governmental unit's board minutes?		
11. Are payments made only on the basis of original invoices?		
12. Is adequate approval required for reimbursement to employees for travel and other expenses?'		
13. Are vendor month-end statements reviewed for non-current invoice dates?		
14. Are vendors paid on a timely (monthly) basis?		
15. Does the entity have a formal year end cutoff procedure?		
16. Are accruals and other liabilities, periodically reviewed for reasonableness by an appropriate person?		

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Person Interviewed:
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Response	Comments
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**Payroll:**

1. Has the governmental unit adopted a formal personnel policy?		
2. Is written authorization by the Board, or other responsible official, required to place individuals on the payroll? If other, include name/title and scope of responsibility in comment section.		
3. Is written authorization required to terminate an individual's employment?		
4. Are all changes in employment (additions, terminations, salary and wage rates, and benefits) recorded in the governmental unit's board minutes?		
5. Are personnel files maintained?		
a. employment application		
b. new employee investigation		
c. date employed		
d. current rate of pay and pay rate history		
e. position		

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Date of Interview:
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Person Interviewed:
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	Response	Comments
f. authorization to work in U.S. (INS form I-9), specimen signature.		
g. termination date		
h. other (note in comment section)		
6. Are appropriate controls maintained for accumulated employee benefits (vacation, sick days, pension data, etc.)		
7. Do physical controls exist over personnel records that prevent their loss or use by unauthorized personnel?		
8. Are all new salary ranges and benefits approved by the governing body?		
9. Are wages at or above the federal minimum wage?		
10. Are employee benefit matters monitored by individuals who are knowledgeable of the applicable legal, actuarial, and accounting requirements?		

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Person Interviewed:
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	Response	Comments
11. Are notices of additions, separations, and changes in salaries, wages, and deductions promptly reported to the payroll processing function?		
<b>Timekeeping and Payroll Preparation:</b>		
12. Do employees prepare and sign timesheets/cards to support regular hours worked, overtime and authorized time off?		
13. Does a responsible official of the entity authorize and approve vacations, sick leave, overtime, and compensatory time off?		
14. Is the approval of the responsible official on time cards or other attendance required prior to preparing payroll?		
15. Are responsibilities for supervision and timekeeping functions segregated from personnel, payroll processing, payroll check disbursement, and general ledger functions?		
16. Are persons responsible for preparing the payroll independent of other payroll duties (e.g. time keeping, distribution of checks), and are they denied access to other payroll data or cash?		



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Person Interviewed:
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Response	Comments
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17. Does payroll perform the following functions:

- a. check time card/attendance records for computations of payroll period hours?
- b. review time card/attendance records for proper authorizations?
- c. check overtime hours, rates, and computations?
- d. review time records for unapproved erasures and alterations?
- e. verify pay rates?


18. Is the payroll subject to final approval before payment by someone independent of payroll preparation and time keeping?

--	--

**Payroll Checks and Distribution:**

19. Is payment of wages in cash prohibited, except in prescribed circumstances?

--	--

20. Do payroll checks contain detail of gross pay and deductions?

--	--

21. Is there a reconciliation of gross net pay amounts as shown on tax returns to total payroll on the payroll register and general ledger?

--	--

APPENDIX E

**Imperial County  
Office of the Auditor-Controller  
Division of Audits**

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Internal Control Questionnaire

Department:	Org Key:
Period Covered	

Date of Interview:
--------------------

Person Interviewed:
---------------------

	Response	Comments
22. Does an appropriate person review monthly payroll-related accruals for completeness and reasonableness?		
23. Is the total of W-2 wages for the year reconciled to the general ledger and payroll register?		
24. Are returned or unclaimed W-2s investigated by a person other than payroll and time keeping personnel?		
25. Does someone independent of time keeping and preparation of payroll checks, or envelopes distribute paychecks?		
26. Are payroll checks released only upon presentation of proper identification of the employee?		
27. Are employees prohibited from accepting another employee's payroll check?		
28. Are unclaimed/undistributed payroll checks returned to an employee who is not associated with the payroll function?		
29. Is a continuing record maintained of all unclaimed wages?		

APPENDIX E

Imperial County  
Office of the Auditor-Controller  
Division of Audits

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Internal Control Questionnaire

Department:	Org Key:
Period Covered	

Date of Interview:
--------------------

Person Interviewed:
---------------------

Response	Comments
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**Monitoring:** Management monitors the controls it has established to consider whether they are operating as intended and that they are modified as appropriate for changes in conditions. Monitoring is a process that assesses the quality of internal control performance over time. It involves assessing the design and operations of controls on a timely basis, and taking necessary corrective actions. This process is accomplished through ongoing activities, separate evaluations, or by various combinations of the two.

1. Is management sufficiently involved in day to day operations to identify significant variances from expectations?		
2. Does management exercise reasonable control over activities so that there is an absence of crisis conditions in the entity or accounting (e.g. well organized work areas, no unusual delays, and adequate documentation for all significant transactions)?		
3. Is there adequate monitoring of decentralized activities and accounting systems?		
4. Do personnel, in carrying out their regular activities, obtain evidence as to the adequacy of internal controls ( for example, is data used to manage operations periodically compared and reconciled to financial reporting information)?		

APPENDIX E

**Imperial County  
Office of the Auditor-Controller  
Division of Audits**

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Internal Control Questionnaire

Department:	Org Key:
Period Covered	

Date of Interview:
--------------------

Person Interviewed:
---------------------

	Response	Comments
5. Is management adequately involved in designing and approving accounting system procedures?		
6. Does management take appropriate follow-up action for identified problems or weaknesses in internal controls (including matters communicated by the auditors)?		
7. Are there periodic comparisons of amounts recorded by the accounting system with physical assets?		
8. Are budgets required for governmental funds and proprietary funds?		
9. Are budgets submitted to administrators in accordance with an established time schedule?		
10. Are actual results compared with budgeted results, and significant deviations investigated by a designated responsible official?		

APPENDIX E

**Imperial County  
Office of the Auditor-Controller  
Division of Audits**

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Internal Control Questionnaire

Department:	Org Key:
Period Covered	

Date of Interview:
--------------------

Person Interviewed:
---------------------

	Response	Comments
11. Are there established procedures for amendments of budgets that require adequate support (e.g., forecasts) for authorization of amendments?		
12. Does management use budget variance reports, operating analysis, or interim financial reports to monitor operations?		

# APPENDIX F

## Imperial County [Client] Fraud Risk Inquiry Form For the fiscal year ended June 30, 20XX

Interviewee(s): \_\_\_\_\_ Date of Interview: \_\_\_\_\_

	<b>Management Inquiry</b>	<b>Yes</b>	<b>No</b>	<b>Comments</b>
1.	Does management have any knowledge of fraud or suspected fraud within the entity?			
2.	Is management aware of any allegations of fraud or suspected fraud affecting the entity (e.g., received in communications from employees, former employees, analysts, regulators, or others)?			
3.	Does management understand the risks of fraud within the government unit, including any specific fraud risks the entity has identified or account balances or transaction classes that may be susceptible to fraud?			
4.	Has management communicated to employees the importance of ethical behavior and appropriate business practices?			
5.	Have programs and controls been established by management within the entity to mitigate specific fraud risk the entity has identified or that otherwise help to prevent, deter, and detect fraud, and how management monitors those programs and controls (specify these programs and controls)?			
6.	Have programs and controls been established within the entity to monitor multiple locations or departments and whether any of them have a high level of fraud risk (specify these programs and controls)?			

APPENDIX F

Imperial County  
[Client]  
Fraud Risk Inquiry Form  
For the fiscal year ended June 30, 20XX

	<b>Employee Inquiry</b>	<b>Yes</b>	<b>No</b>	<b>Comments</b>
1.	Is the employee(s) aware of fraud occurring or have suspicions of fraudulent activity?			
2.	Does the employee(s) have knowledge of any unusual or improper account activity (i.e., journal entries or claims)?			

# Appendix G

**Imperial County**  
**[Client Name]**  
**Risk Assessment Worksheet**  
**For the Fiscal Year Ended June 30, 20XX**

<b>Inherent Risk Factors</b>					
H = High, M = Moderate, or L = Low					
Significant Activities, Account Balance or Transaction Class	Organizational Business Risk Factors	Nature of Account Risk Factors	Prior History Risk Factors	Fraud Risk Factors Misappropriation/ Theft	Fraud Risk Factors Fraudulent Financial Reporting

<b>Control Environment</b>					<b>Detection Risk</b>	<b>Desired Level of Audit Risk (1)</b>
H = High, M = Moderate, or L = Low						
Significant Activities, Account Balance or Transaction Class	Segregation of Duties	Physical Controls	Information Processing	Performance Reviews	Audit Procedures	IR + CR + DR = L
						<b>L</b>
						<b>L</b>
						<b>L</b>
						<b>L</b>
						<b>L</b>
						<b>L</b>
						<b>L</b>

(1) To achieve a low (L) level of audit risk, at least one element of the risk elements (inherent, control, or detection) must be low (L) or at least two of the three must be moderate (M).



# Appendix G

**Imperial County**  
**[Client Name]**  
**Risk Assessment Worksheet**  
**For the Fiscal Year Ended June 30, 20XX**

**Inherent Risk Factors:**

**Organization/Business Risk Factors:**

Changes in operations  
Changes in personnel  
Competency of current personnel  
Changes in systems/capability of current systems  
Level of supervision or oversight

**Nature of Account Risk Factors:**

Materiality to financial statements  
Complexity of transactions or calculations  
Number of Transactions

**Prior History Risk Factors:**

Unrecorded off-books activity (errors in applying GAAP)  
Year end conversion required (known history of noncompliance)  
Unrecorded updates to account balances (past history of fraud)  
Errors in recording transactions

**Fraud Risk Factors Misappropriation/Theft:**

Susceptibility of assets to misappropriation  
Opportunities available for misappropriation

**Fraud Risk Factors - Fraudulent Financial Reporting:**

Questionable management style and characteristics  
Presence of political factors or pressures  
Pressure from outside influences  
Continued disregard of legal requirements  
Unrealistic financial targets or projections

**Control Risk Factors:**

**Segregation of Duties:**

Custody or access  
Authorization  
Processing or accounting  
Reconciliation

**Physical Controls:**

Limited access to assets, blank checks, etc.  
Computer system access or security controls  
Numbered sequence control  
Supervision over remote locations

**Information Processing:**

Journals used and summarized  
Edit checks of input data  
Manual follow-up of exceptions  
Independent approval of adjustments

**Performance Reviews:**

Periodic physical inventories or other verification  
Timely and complete reconciliation of detail to control totals  
Independent review of output or reports

# Appendix G

**Imperial County**  
**[Client Name]**  
**Risk Assessment Worksheet**  
**For the Fiscal Year Ended June 30, 20XX**

**Detection Procedures:**

	Low	Moderate	High
Nature of Evidence (Type)	Search & Verification: ·Inspection ·Observation ·Recomputation	Confirmation  Analytical Review  Scanning Details	Inquiry
Nature of Evidence (Source)	Directly obtained by the Auditor	Indirectly obtained from independent outside sources	Indirectly obtained from inside sources
Timing of Evidence (When)	Closer to the time of transactions or valuations	Surprise inspections or observations  Cut off periods  Closer to year end	Interim Periods
Extent of Evidence (How Much)	More Individually significant items  Larger sample sizes	Both written and oral confirmations  Lower acceptable variances, more persuasive analyticals  Corroborative inquiries	Smaller sample sizes, less individual items

**Audit Procedures to be performed on this audit in order to achieve L (low) level of audit risk.**

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## APPENDIX H

### *Sample Attorney Letter*

[Entity's Letterhead]

March 1, 20XX  
Attorney Name  
Attorney Address  
El Centro, CA 92243

Dear [Insert Attorney Name]:

In connection with an audit of our basic financial statements as of June 30, 20XX and for the period of July 1, 20XX to June 30, 20XX then ended, please furnish to our independent auditors, *Imperial County Auditor-Controller Attn: Douglas Newland 940 Main Street, Ste 108, El Centro, CA 92243*, the following information concerning certain contingencies involving matters to which you have devoted substantive attention on behalf of [Entity Name] in the form of legal consultation or representation. These contingencies are regarded by us as material for this purpose if they involve claims amounting to more than \$15,000 (USD), individually or in the aggregate.

#### *Pending or Threatened Litigation, Asserted Claims, and Assessments*

Please furnish to our auditors a description and evaluation of all pending or threatened litigation, asserted claims, and assessments. Your response should include the following:

1. The nature of each matter, including (a) the proceedings, (b) the amount of monetary damages sought, or if no amounts are indicated, a statement to that effect, (c) the extent to which potential damages are covered by insurance, and (d) the objectives sought by the plaintiff other than monetary or other damages.
2. The progress of each matter to date.
3. The way we are responding or intend to respond (e.g., to contest the case vigorously or to seek an out-of court settlement).
4. An evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss. If you cannot express an opinion on the outcome of certain litigation, please so state, together with your reasons for that position.

## APPENDIX H

### *Sample Attorney Letter*

#### *Unasserted Claims and Assessments*

We have represented to our auditors that there are no unasserted possible claims or assessments that you have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 (excerpts of which can be found in the ABA's Auditor's Letter Handbook).

We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5. Please specifically confirm to our auditors that our understanding is correct. Please furnish to our auditors an explanation, if any, that you consider necessary to supplement the foregoing information, including an explanation of those matters on which your views may differ from those stated.

We have represented to and assured our auditors that the unasserted claims and assessments mentioned in this letter include all unasserted claims and assessments that you have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.

#### Response

Your response should include matters that existed as of June 30, 20XX, and additional information about those matters or new matters that arose during the period from that date to the effective date of your response.

Please specifically identify the nature of and reasons for any limitation on your response.

We expect to have our audit completed about March 31st, 20XX. Therefore, we appreciate receiving your reply by that date with a specified effective date no earlier than March 16th, 20XX.

## APPENDIX H

### *Sample Attorney Letter*

Your response will not be quoted or referred to in the entity's financial statements without prior consultation with you.

Please send your response directly to our auditors, with a copy to me.

Thank you for your anticipated timely cooperation with this request.

Respectfully,

[Board Chairman's Name and Title]  
[Entity Name]

## APPENDIX I

### Imperial County [Client] Commitments & Contingencies Form For the fiscal year ended June 30, 20XX

Interviewee(s): \_\_\_\_\_ Date of Interview: \_\_\_\_\_

	Inquiry	Yes	No	Comments
1.	Have there been any sales of assets or agreements to repurchase assets previously sold?			
2.	Does the client have any long-term leases with required fixed payments for several years?			
3.	Does the client have a liability for compensated absences that have not been accrued because the condition of reasonable estimation could not be met?			
4.	Does the client have any liability for incurred but not reported claims in areas where the client is uninsured?			
5.	Does the client have pension plan reserves, vested benefits, and any related unfunded costs?			
6.	Has the client entered into a project with other governmental entities that require annual payments?			
7.	Has the client made any commitments to purchase large quantities or at prices in excess of market prices prevailing at the balance sheet date?			
8.	Has the client made any commitments to expand or rehabilitate facilities or to acquire noncurrent assets?			
9.	Has the client entered into any financial transactions or arrangements with financial institutions?			
10.	Does the client have any possible claims or disallowed costs or expenditures incurred under federal or state award programs?			

# APPENDIX I

## Imperial County [Client] Commitments & Contingencies Form For the fiscal year ended June 30, 20XX

Interviewee(s): \_\_\_\_\_ Date of Interview: \_\_\_\_\_

	Inquiry	Yes	No	Comments
11.	Does the client have any environmental liabilities?			
12.	Has the client defaulted on any debt agreements?			
13.	Are client officials aware of any fraud and illegal acts involving management or employees?			
14.	Did the results of audit procedures applied to specific accounts indicate the existence of significant commitments or contingencies?			
15.	Did client management's assertion regarding litigation, claims and assessments or client's counsel response to assertions identify any significant commitments or contingencies?			
16.	Are client officials aware of any significant commitments or contingencies?			

## APPENDIX J

### Imperial County [Client] Subsequent Events Form For the fiscal year ended June 30, 200X

Interviewee(s): \_\_\_\_\_ Date of Interview: \_\_\_\_\_

	Inquiry	Yes	No	Comments
1.	Has there been any issuance of bonds or other material debt that occurred after the balance sheet date?			
2.	Has the district entered into any significant long-term contracts or agreements after the balance sheet date?			
3.	Has there been any significant compensated absence payoffs that took place or will take place after the balance sheet date?			
4.	Has the district experienced any significant loss of physical assets due to flood or fire or other casualty after the balance sheet date?			
5.	Did the review of the board minutes subsequent to the balance sheet date disclose any significant events?			
6.	Have there been any significant legal settlements after the balance sheet date?			
7.	Are district officials aware of any significant subsequent events?			



# APPENDIX K

**Imperial County**  
**[Client]**  
**Related Party Transactions Form**  
**For the fiscal year ended June 30, 200X**

**Interviewee(s):** \_\_\_\_\_ **Date of Interview:** \_\_\_\_\_

	<b>Inquiry</b>	<b>Yes</b>	<b>No</b>	<b>Comments</b>
1.	Are there any related parties with whom the district does business that impacts the district? <i>If yes, obtain details of the transactions and the nature of the relationship. If none, no further questions are necessary.</i>			
2.	Are the transactions significant?			

## APPENDIX L

### *Sample Client Representation Letter*

*[Prepared on Client Letterhead]*

*[Date of Audit Report]*

To *[Independent Auditor]*

We are providing this letter in connection with your audit(s) of the *[identify the basic financial statements of [name of entity] as of [dates] and for the [periods]* then ended for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position of *[name of entity]*, results of operations, and cash flows of its proprietary funds in conformity with generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the basic financial statements of *[name of entity]*'s financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. We further confirm to you that we are responsible for adopting sound accounting policies in conformance with generally accepted accounting practices and establishing and maintaining adequate internal controls for the prevention and detection of fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of *[date of auditor's report]*, the following representations made to you during your audit(s):

1. The financial statements referred to above are fairly presented in conformity with generally accepted accounting principles.
2. We have made available to you all:
  - a. Financial records and related data.
  - b. Minutes of the meetings of the elected body or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

## APPENDIX L

### *Sample Client Representation Letter*

5. We believe that the effects of the unadjusted financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole [*If there are no adjustments to list, then change the wording to "We believe that all material and immaterial adjustments to the basic financial statements have been recorded."*]
6. There has been no:
  - a. Fraud involving management or employees who have significant roles in internal control.
  - b. Fraud involving others that could have a material effect on the financial statements.
  - c. Allegations of fraud or suspected fraud affecting the entity in any communications (written or oral) from any current or employee, vendor, regulator, or any other person currently associated with the entity.
7. The [name of organization] has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
8. The following have been properly recorded or disclosed in the financial statements:
  - a. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the [name of organization] is contingently liable.
  - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with AICPA's statement of Position 94-6, disclosure of Certain Significant Risks and Uncertainties. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to [*volumes of business, revenues, available sources of supply, or markets or geographic areas, as applicable*] for which events could occur that would significantly disrupt normal finances within the next year.
9. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5 Accounting for Contingencies.

## APPENDIX L

### *Sample Client Representation Letter*

- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FAS-5.
- 10. The [name of organization] has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 11. We have complied with all aspects of laws, regulations, grand and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 12. Provisions for uncollectible receivables have been properly identified and reports.
- 13. Regarding the financial statements:
  - a. Included all component units, as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
  - b. Properly classified all funds and activities.
  - c. Properly classified all net asset components, and all designations (if present) have been approved.
  - d. Properly classified revenues as to program or general revenues or contributions to term or to permanent endowments or contributions to permanent fund principal.
  - e. Properly classified and reported interfund, internal, and intra-entity activity and balances.
  - f. Properly classified and reported special and extraordinary items (if present).
  - g. Properly classified deposit and investment securities as to custodial credit risk and have made all disclosures relevant to credit risk, custodial risk, concentration risk and interest rate risk in the notes to financial statements.
  - h. Properly capitalized and classified all capital assets (including infrastructure assets) and depreciation, as applicable.
  - i. All required supplementary information (RSI) is measured and presented within prescribed guidelines of generally accepted accounting principles.
- 14. With respect to federal award programs:
  - a. "We are responsible for complying with and have complied with all applicable compliance requirements of federal award programs."
  - b. "We have disclosed to you all federal awards that were received during the fiscal year and all relevant expenditures in the Schedule of Expenditures of Federal Awards."

## APPENDIX L

### *Sample Client Representation Letter*

- c. "We have made available to you all grant documents and related correspondence."

*[Add additional representations that are unique to the entity's business or industry. See Note 1 below for illustrative examples of additional representations.]*

To the best of our knowledge and belief, no events have occurred subsequent to the balance-sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

*[Name of Chief Executive Officer and Title]*

*[Name of Chief Financial Officer and Title]*

## APPENDIX L

### *Sample Client Representation Letter*

#### Note 1:

1. The representation letter should be dated as of the date of the auditor's report so that if an event occurs through the report date it may be adjusted to or disclosed in the financial statements.
2. The representations illustrated in this letter should be modified when necessary to read, "Except as disclosed to you (or as disclosed in Note X to the financial statements), there are no ..."
3. If the entity has not consulted a lawyer concerning litigation, claims, or assessments, the auditor normally would rely on the review of internally available information and obtain a written representation by management regarding the lack of litigation, claims, and assessments. In these circumstances, this item could be worded as follows:

We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies*, and we have not consulted a lawyer concerning litigation, claims, or assessments.
4. The letter of representation should be signed by members of management who are responsible for, and knowledgeable about, the matters covered by the representations. Normally, the chief executive officer and chief financial officer should sign the letter. However, under certain circumstances, other officers and employees whose functions include significant responsibility for the financial reporting process and operating matters also should be asked to sign the letter.
5. Depending on the circumstances of the audit engagement, the auditor may determine that matters other than those in the illustrative representation letter should be included. The following are examples of matters that may require additional representations and, therefore, necessitate modification to the illustrative letter:

## APPENDIX L

### *Sample Client Representation Letter*

#### General:

*Material adjustments to the books for accruals and/or corrections.*

We have reviewed and approved the various adjusting journal entries that were prepared by your firm for recording in our books and records.

*There is justification for change in accounting principles.*

We believe that [describe the newly adopted accounting principle] is preferable to [describe the former accounting principle] because [describe management's justification for the change in accounting principles].

*Financial circumstances are strained, with disclosure of management's intentions and the entity's ability to continue as a going concern.*

Note [X] to the financial statements discloses all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and management's plans.

#### Assets:

##### Cash

*Disclosure is required of compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.*

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangements have been properly disclosed.

##### Financial Instruments

*Management has determined the fair value of significant financial instruments that do not have readily determinable market values.*

The methods and significant assumptions used to determine fair values of financial instruments are as follows: [describe methods and significant assumptions used to determine fair values of financial statements]. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

## APPENDIX L

### *Sample Client Representation Letter*

*There are financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk.*

The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements: (a) the extent, nature, and terms of financial instruments with off-balance-sheet risk; (b) the amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments; and (c) significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

#### Receivables

*Receivables have been recorded in the financial statements.*

Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.

#### Inventories

*Excess or obsolete inventories exist.*

Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.

#### Deferred Charges

*Material expenditures have been deferred.*

We believe that all material expenditures that have been deferred to future periods will be recoverable.

#### Liabilities:

##### Debt

*Short-term debt could be refinanced on a long-term basis and management intends to so.*



## APPENDIX L

### *Sample Client Representation Letter*

The entity has excluded short-term obligations totaling \$[amount] from current liabilities because the entity intends to refinance the obligations on a long-term basis. [Complete the appropriate wording detailing how amounts will be refinanced as follows:]

- The entity has issued a long-term obligation [debt security] after the date of the balance sheet but prior to the issuance of the financial statements for the purpose of refinancing the short-term obligations on a long-term basis.
- The entity has the ability to consummate the refinancing by using the financing agreement referred to in Note [X] to the financial statements.

*Tax-exempt bonds have been issued.*

Tax-exempt bonds issued have retained their tax-exempt status.

#### Contingencies

*Estimates and disclosures have been made of environmental remediation liabilities and related loss contingencies.*

Provision has been made for any material loss that is probable from environmental remediation liabilities associated with [name of site]. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the entity's financial statements.

*Agreements may exist to repurchase assets previously sold.*

Agreements to repurchase assets previously sold have been properly disclosed.

#### Pension and Retirement Benefits

*An actuary has been used to measure pension liabilities and costs.*

We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

## APPENDIX L

### *Sample Client Representation Letter*

*There is involvement with a multiemployer plan.*

We are unable to determine the possibility of a withdrawal liability in a multiemployer benefit plan.

Or

We have determined that there is the possibility of a withdrawal liability in a multiemployer plan in the amount of \$[XX].

*Postretirement benefits have been eliminated.*

We do not intend to compensate for the elimination of postretirement benefits by granting an increase in pension benefits.

Or

We plan to compensate for the elimination of postretirement benefits by granting an increase in pension benefits in the amount of \$[XX].

*Employee layoffs that would otherwise lead to a curtailment of a benefit plan are intended to be temporary.*

Current employee layoffs are intended to be temporary.

*Management intends to either continue to make or not make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service costs, or has expressed a substantive commitment to increase benefits obligations.*

We plan to continue to make frequent amendments to the entity's pension or other postretirement benefit plans, which may affect the amortization period of prior service cost.

Or

We do not plan to make frequent amendments to the entity's pension or other postretirement benefit plans.

## APPENDIX L

### *Sample Client Representation Letter*

#### Income Statement:

*There may be a loss from sales commitments.*

Provisions have been made for losses to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments (such as providing utility services).

*There may be losses from purchase commitments.*

Provisions have been made for losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.

## APPENDIX M

### Imperial County [Client] Going Concern Checklist For the fiscal year ended June 30, 200X

	<b>Elements adapted SAS-59</b>	<b>Yes</b>	<b>No</b>	<b>Comments</b>
1.	<p>Identify conditions or events that, in the aggregate, cause the auditor to believe there is substantial doubt about the ability of the governmental unit to continue as a going concern for a reasonable period of time.</p> <ul style="list-style-type: none"> <li>a. Nonpayment of principal and payment when due</li> <li>b. Nonpayment of payroll for employees</li> <li>c. Nonpayment of payroll taxes to the Internal Revenue Service</li> <li>d. Nonpayment of actuarially determined pension contribution for the current year</li> <li>e. Lower bond rating</li> <li>f. Significant investment losses or losses caused by failed financial institutions</li> <li>g. Need to dispose of certain assets to obtain cash to pay obligations</li> <li>h. Restructuring of debt</li> <li>i. Declining tax base</li> <li>j. Loss of government grants</li> <li>k. Significant amount due for a lawsuit that is not covered by insurance</li> <li>l. Significant natural disaster</li> <li>m. Significant penalties or fines for noncompliance with various laws and regulations.</li> <li>n. Negative fund balance</li> <li>o. Inability to pay creditors on due dates</li> <li>p. Change from credit to cash-on-delivery transactions with suppliers.</li> <li>q. Loss of key management personnel without replacement</li> <li>r. Any other factors (specify):</li> </ul>			

## APPENDIX M

### Imperial County [Client] Going Concern Checklist For the fiscal year ended June 30, 200X

	Elements adapted SAS-59	Yes	No	Comments
2.	Identify management's plans for dealing with the adverse conditions noted in Section 1 (describe plans identified): <ul style="list-style-type: none"> <li>a. Plans to dispose of assets.</li> <li>b. Plans to borrow additional funds or restructure debt.</li> <li>c. Plans to reduce or delay expenditures.</li> <li>d. Plans to obtain other sources of revenue; e.g. new grants, contracts, tax levies, or increased tax rates.</li> <li>e. Plans to acquire funds from component or other related governmental units such as utility funds, airports.</li> <li>f. Other (specify):</li> </ul>			
3.	Consideration of management plans in Section 2:			
	<ul style="list-style-type: none"> <li>a. Plans to dispose of assets:               <ul style="list-style-type: none"> <li>1. Restrictions on disposal of assets, such as covenants in loan agreements that limit disposal of assets or liens on assets.</li> <li>2. Apparent marketability of assets management plans to sell.</li> <li>3. Possible direct or indirect effects of disposal of assets.</li> <li>4. Other considerations (describe):</li> </ul> </li> </ul>			

## APPENDIX M

### Imperial County [Client] Going Concern Checklist For the fiscal year ended June 30, 200X

	<b>Elements adapted SAS-59</b>	<b>Yes</b>	<b>No</b>	<b>Comments</b>
	b. Plans to borrow additional funds or restructure debt: <ol style="list-style-type: none"> <li>1. Availability of debt financing or unused lines of credit.</li> <li>2. Existing or committed arrangements to restructure debt.</li> <li>3. Possible effects on borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral.</li> <li>4. Limitations on borrowing because of high interest rates or poor credit rating.</li> <li>5. Other considerations (describe).</li> </ol>			
	c. Plans to reduce or delay expenditures: <ol style="list-style-type: none"> <li>1. Apparent feasibility of plans to reduce administrative expenditures, postpone maintenance, or lease rather than purchase assets.</li> <li>2. Possible direct or indirect effects of reduced or delayed expenditures.</li> <li>3. Other considerations (describe).</li> </ol>			
	d. Plans to obtain other sources of revenue or funds from new grants, taxes, contributions; or grants from, or merger with, other governmental units: <ol style="list-style-type: none"> <li>1. Apparent feasibility of such plans.</li> <li>2. Other considerations (describe).</li> </ol>			
	e. Plans to acquire funds from component or other related governmental units; e.g., utility funds, airports: <ol style="list-style-type: none"> <li>1. Apparent feasibility of such plans.</li> <li>2. Other considerations (describe).</li> </ol>			
4.	Describe the auditing procedures that support the conclusions drawn in Section 3.			

## APPENDIX M

### Imperial County [Client] Going Concern Checklist For the fiscal year ended June 30, 200X

	<b>Elements adapted SAS-59</b>	<b>Yes</b>	<b>No</b>	<b>Comments</b>
5.	Based on the auditor's evaluation of management's plans, summarized in Section 3, does the auditor conclude that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time?			
6.	Based on your evaluation consider the effect on the financial statements, including related disclosures, and the auditor's report:			
	<ol style="list-style-type: none"> <li>1. If substantial doubt remains, are the possible effects of the conditions and events appropriately disclosed in the financial statements?</li> <li>2. Are the disclosures with respect to the entity's ability to continue as a going concern adequate?</li> <li>3. Is an explanatory paragraph included in the auditor's report? If no, explain.</li> <li>4. If disclosures with respect to the entity's ability to continue as a going concern are inadequate, the auditor should document the conclusion as to whether to express a qualified or adverse opinion for the resultant departure from generally accepted accounting principles.</li> </ol>			

## APPENDIX N

### *Sample Going Concern Paragraph Disclosure Note to Financial Statements*

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements ended June 30, 20XX, the District's current liabilities exceeded its current assets by \$X,XXX and its total liabilities exceeded its total assets by \$X,XXX. These factors raise substantial doubt that the District will be able to continue as a going concern for a reasonable period of time.



APPENDIX O

Imperial County

Internal Audits Division

Audit File Index

Client Name \_\_\_\_\_

Audit Period \_\_\_\_\_

Section No.

Audit Division – Routing Sheet

Final Audit Report

Department Response

Draft Audit Report

Draft Audit Review Notes

Correspondence and Meeting Summaries

Recommended Audit Follow Up

Audit Program, Workpaper Index and Time Sheets

Audit Workpapers

# APPENDIX P

## Imperial County Auditor-Controller Audit Division - Routing Sheet

Department: \_\_\_\_\_ Budget No.: \_\_\_\_\_  
 Audit Period: \_\_\_\_\_ to \_\_\_\_\_  
 Date Assigned: \_\_\_\_\_ Date Completed: \_\_\_\_\_

Auditor in Charge: _____	Actual Audit Hours
Other Staff Assigned: _____	

	Budgeted _____		Total _____	
	Initial	Date Received	Date Released	Process Time
<u>Operation</u>				
Review - Draft: Chief of Audits				
Assistant Auditor-Controller				
Auditor-Controller				
Report Signed: Auditor-Controller				

Report Distribution: State total number of copies per department followed by a "P" for plain reports and "C" for covered.

Department _____	Board of Supervisors _____
District Attorney _____	Auditor-Controller _____
Other _____	_____

Discussion Items - Current Audit:

\_\_\_\_\_

\_\_\_\_\_

Discussion Items - Prior Audit:

\_\_\_\_\_

# Appendix P

## TIME AND BUDGET SUMMARY

Name: \_\_\_\_\_

Department: \_\_\_\_\_

Title: \_\_\_\_\_

Audit Period: \_\_\_\_\_

Audit Program Section	Total Fwd.																															Total				
Month/Year:	Job	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Month	Job		
Audit Planning/Program																																		0.0	0.0	
Field work																																		0.0	0.0	
Purchase orders																																		0.0	0.0	
Operating Expenses																																		0.0	0.0	
Payroll																																		0.0	0.0	
Exhibits																																		0.0	0.0	
Work papers																																		0.0	0.0	
Audit report																																		0.0	0.0	
Audit Costs																																		0.0	0.0	
Total for Day		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Total for Job	0.0																																	0.0	0.0	

Name: \_\_\_\_\_

Department: \_\_\_\_\_

Title: \_\_\_\_\_

Audit Period: \_\_\_\_\_

Audit Program Section	Total Fwd.																															Total			
Month/Year:	Job	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Month	Job	
Audit Planning/Program	0.0																																	0.0	0.0
Field work	0.0																																	0.0	0.0
Internal Control	0.0																																	0.0	0.0
Audit Supervision	0.0																																	0.0	0.0
Payroll	0.0																																	0.0	0.0
Exhibits	0.0																																	0.0	0.0
Work papers	0.0																																	0.0	0.0
Audit report	0.0																																	0.0	0.0
Audit Costs	0.0																																	0.0	0.0
Total for Day		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Total for Job	0.0																																	0.0	0.0

# Appendix R

## *Example Audit Workpaper*

A-1

jv 6-29-XX

Imperial County  
“County Department Name” “Org Key”  
Cash Disbursement Testing  
June 30, 20XX

### Objective:

Evaluate the strengths and weaknesses of the cash disbursement process.

### Scope and Methodology:

An adequate system of internal control is achieved through the adequate separation of responsibilities for 1) initiating or approval of transactions, 2) custody of assets, and 3) record keeping. Every transaction should involve; 1) authorization, 2) approval, 3) execution, and 4) recording.

With these criteria in mind, the Audit staff chose to test all transcription services provided to the department during the audit period. Transcription services were chosen for testing as it lent itself to the criteria of a service that could be traced to an end product that we could review.

### Procedures:

- 1) From IFAS scheduled all transcription services expenditures.
- 2) Traced entry in IFAS to claims scanned in Questys.
- 3) Used following testing criteria:
  - a) Identify who processed claim.
  - b) Identify who approved claim for payment.
  - c) Identify on selected warrants who picked them up.
  - d) Verify existence of transcript.

### Source of Data:

Claims submitted to Auditor-Controller’s Office for payment, and “County Department’s Name”, “employee name”, assisted by providing case files so we could confirm transcripts existed.

## Appendix R

### *Example Audit Workpaper*

A-2

jv 6-29-XX

Imperial County  
“County Department Name” “Org Key”  
Cash Disbursement Testing  
June 30, 20XX

#### Results & Conclusions:

We requested that the “County Department Head Name” provide us the case files and locate the transcripts so that we could test the 31 claims submitted for reimbursement during the fiscal year. Of the 31 claims, 9 files did not contain a transcript and there was no documentation in file to indicate that one had been requested. Two files could not be located due to inadequate documentation attached to the claim.

Upon further investigation, we learned that the two transcribers, who billed for the 9 transcriptions that could not be located, were related to an employee of the “County Department Name”. This employee was the same employee who processed and approved the claims for payment, and in 7 of the 9 cases picked up the warrants from the Auditor-Controller’s office.

Recommendations include: Claims should be processed and approved by different employees, and the employee approving the claim should be someone higher in the organizational structure than the employee processing the claim.

Supporting documentation attached to the claim for transcription services should include written authorization to perform the service, the case number and defendant’s name, the hourly charge and the number of hours spent performing the service.

Employees should not process, approve or submit claims for reimbursement for outside services rendered by family members.

# Appendix R

## Example Audit Workpaper

Imperial County "County Department Name"  
Testing of Transcript Fees Paid  
Fiscal Year 20XX-XX

<u>Date</u>	<u>Vendor Number</u>	<u>Vendor Name</u>	<u>Case Number</u>	<u>Warrant Number</u>	<u>Amount</u>	<u>Hours</u>	<u>Rate</u>	Claim	Claim	Warrant	<u>Notes</u>
								Processed	Approved	Picked	
								By	By	Up By	
8/1/20XX	t12345	Doe, Jessica	1234a1	120XXX	750.00	75	10	JD	JD	BS	no transcript, PD believes one was requested.
8/9/20XX	t67891	Doe, John	1234b2	122XXX	150.00	15	10	JD	JD	JD	not applicable
8/23/20XX	t12345	Doe, Jessica	1234c3	123XXX	400.00	40	10	JD	JD	JD	no transcript
9/13/20XX	t12345	Doe, Jessica	1234d4	125XXX	750.00	75	10	JD	JD	JD	no transcript
9/13/20XX	t12345	Doe, Jessica	1234e5	125XXX	50.00	n/a	n/a	JD	JD	JD	no transcript
9/15/20XX	t55555	Smith, Bob	1234f6	125XXX	250.00	n/a	n/a	JD	JD	JD	dept could not identify case
9/30/20XX	t12345	Doe, Jessica	1234g7	127XXX	375.00	n/a	n/a	JD	JD	JD	dept could not identify case
10/4/20XX	t55555	Smith, Bob	1234h8	127XXX	300.00	n/a	n/a	JD	JD	JD	no transcript, PD believes one was requested.
10/17/20XX	t55555	Smith, Bob	1234j9	128XXX	650.00	65	10	JD	JD	JD	transcript in file
11/1/20XX	t12345	Doe, Jessica	1234j1	130XXX	925.00	n/a	n/a	JD	JD	JD	dept relieved of case 11-9-05, no file available
11/10/20XX	t55555	Smith, Bob	1234k2	131XXX	975.00	n/a	n/a	JD	JD	JD	dept relieved of case 11-14-05, no file available
12/6/20XX	t01235	Smith, John	1234l3	132XXX	60.00	n/a	n/a	BS	BS	BS	transcript in file
3/27/20XX	t02345	Jones, Bill	1234m4	143XXX	594.00	19.8	30	JD	JD	JD	transcript in file
4/3/20XX	t55555	Smith, Bob	1234n5	144XXX	550.00	n/a	n/a	JD	JD	JD	no transcript
4/11/20XX	t03456	Jones, Sarah	1234o6	144XXX	47.60	10	33.6	JD	JD	JD	transcript in file
4/26/20XX	t55555	Smith, Bob	1234p7	146XXX	525.00	n/a	n/a	JD	JD	BS	no transcript
5/3/20XX	t55555	Smith, Bob	1234q8	146XXX	375.00	n/a	n/a	JD	JD	JD	transcript in file
5/11/20XX	t04567	Jones, Carol	1234r9	147XXX	150.00	n/a	n/a	JD	JD	JD	transcript in file
5/22/20XX	t55555	Smith, Bob	1234s1	148XXX	375.00	n/a	n/a	BS	BS	BS	many transcripts in file
6/7/20XX	t05678	Roberts, Kathy	1234t2	149XXX	620.00	15.5	40	JD	JD	JD	transcript in file
6/12/20XX	t55555	Smith, Bob	1234u3	150XXX	500.00	n/a	n/a	JD	JD	JD	transcript in file (23 pages long)
6/22/20XX	t12345	Doe, Jessica	1234x6	151XXX	625.00	n/a	n/a	JD	JD	JD	no transcript
6/22/20XX	t33333	Green, Mark	1234y7	151XXX	35.00	10pgs	3.5	JD	JD	JD	not a dept case

JD = Jane Doe  
BS = Betty Smart