

LOCAL SCHOOLS

Audit and Internal Control Considerations



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PROFESSIONALS

300+
PARTNERS



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YEAR-OVER-YEAR GROWTH
(SINCE FORMATION)

PrimeGlobal

INTERNATIONAL ASSOCIATION
OF INDEPENDENT ACCOUNTING FIRMS



Top 20 CPA Firm in the U.S.

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YEAR FOUNDED

7

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CRI ADVANCED ANALYTICS
CRI CAPITAL ADVISORS
CRI SOLUTIONS GROUP
CRI TPA SERVICES
LEVEL FOUR
PAYWERX



PROFESSIONAL
ORGANIZATION
MEMBERSHIPS

American Institute of
Certified Public
Accountants (AICPA)
Alliance for CPA firms

AICPA Employee Benefit
Plan Audit Quality Center

AICPA Governmental
Audit Quality Center

AICPA Private Companies
Practice Section

Center for Audit Quality
(CAQ)

Information Systems
Audit and Control
Association (ISACA)

Institute of Internal
Auditors (IIA)

Public Company
Accounting Oversight
Board (PCAOB)

500+

PARTNER DESIGNATIONS
37 are different

CPA	CFF	CISSP	FAHM
ABV	CFP	CITP	MCP
AEP	CFSA	CMA	MCSE
AES	CFST	CMPE	PFS
CAM	CGAP	CRFA	QSA
CCA	CGEIT	CRISC	
CCIFP	CGFM	CRMA	
CCSFP	CGMA	CSEP	
CEPA	CIA	CSP	
CFE	CIE	CVA	
(Financial)	CISA		
CFE			
(Fraud)			

7,500+
PARTNER YEARS
OF EXPERIENCE

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Agenda/Outline

- Overview of governmental financial statements
- Basics of an independent audit
- Internal control concepts
- Local school accounting policies/procedures
- Primary areas of audit focus at local schools

The Financial Statement Types



Fund Financial Statements

(Modified Accrual Basis of accounting)

Government-Wide Financial Statements

(Full Accrual Basis of accounting)

Two Methods of Accounting

- **Modified Accrual Basis**

- Fund Financial Statements use this basis.
- Focus narrowly on current financial resources
- No long-term assets and no long-term liabilities.
 - No fixed assets and no debt.
 - Long-term assets are expensed and long-term liabilities are reported as revenue/proceeds.

- **Full Accrual Basis**

- Government-Wide Financial Statements use this basis.
- Focus broadly on total economic resources
- Same accounting method as corporate financial statements.

Multiple Statement Concept

- **Two balance sheets.**
 - Government-Wide Statement of Net Position
 - Full Accrual Basis of accounting.
 - Governmental Funds Balance Sheet
 - Modified Accrual Basis of accounting.
- **Two income statements.**
 - Government-Wide Statement of Activities
 - Full Accrual Basis of accounting.
 - Statement of Revenues, Expenditures, and Changes in Fund Balances
 - Modified Accrual Basis of accounting.
- **Reconciliation reports for each of the two types.**

Difference in Basis of Accounting

Item	Accrual Basis	Modified Accrual Basis
Revenue	When earned	When earned, if measurable and available: Collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period
Expense / Expenditure	When liability incurred	When liability incurred EXCEPT FOR: <ul style="list-style-type: none">- Unmatured debt- Accrued interest- Certain accrued liabilities normally not expected to be liquidated currently with expendable available financial resources- Supplies inventories and prepaids

Fund Financial Statements- Modified Accrual Basis of accounting

- Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance (income statement) is made up of a set of self balancing **funds**.
- Each **fund** functions much like a “separate” entity/company/division.
 - General Fund
 - Special Revenue Funds
 - Capital Project Funds
 - Debt Service Funds

General Fund

- This is the fund that reports all general purpose transactions of a government. The official definition is the fund used to account for all financial resources not represented in another fund.
- Taxes used to operate the general functions of a School Board the Foundation Program revenues are usually reported in this fund.

Special Revenue Funds

- These are the funds that account for the proceeds of specific revenues that are restricted or committed to specific purposes other than debt service or capital projects.
 - Generally local school activity is recorded in Special Revenue Funds in Alabama districts
 - Other examples: Grants or revenues from another government for a specific purpose, such as Title I or Special Education funding

Capital Projects Funds

- These are funds that are used to account for revenues and resources that have constraints placed upon them for expenses related to capital outlays. This includes acquisition and construction of facilities and any other capital assets.
- The resources this fund uses for capital purchases usually comes from debt issuances, transfers from the General Fund, or grants.
 - BUT- capital outlays could be presented in other funds if a government chooses.

Debt Service Funds

- This fund is used to accumulate and account for resources that are constrained for payment of principal and interest. This fund **MUST** be used to report these resources if legally mandated. Any monies that are being accumulated for future principal and interest payments should be reported in this fund.
 - Monies accumulated in this fund are usually transferred from the General Fund.

Fund Balance

- Fund balance equals equity on a modified accrual basis of accounting.

What?

$$\begin{aligned} &\text{Current Assets} \\ &\quad - \text{Current Liabilities} \\ &= \text{Fund Balance} \end{aligned}$$

OR

FUND BALANCE = UNSPENT REVENUES

Fund Balance (UNSPENT REVENUES)

- The unspent revenues that make up fund balance have certain spending constraints
 - Totally constrained to unconstrained
- 5 Categories
 - Unspendable
 - Restricted
 - Committed
 - Assigned
 - Unassigned

Fund Balance- UNSPENDABLE

Unspendable

- Cash has already been converted into an asset - inventory or prepaid items. (Cash has already been spent.)

Fund Balance- RESTRICTED

Restricted

- Spending restrictions imposed by an outside agency.
 - EX: Creditor, other government, granting agency
- Totally constrained.

Fund Balance- COMMITTED

Committed

- Spending constraints created by formal action (ordinance) of the governing body (City Council or School Board)
- These constraints can be removed by the same action that created the original constraint.
- Moderately constrained.

Fund Balance- ASSIGNED

Assigned

- Spending constraints imposed by government's management.
 - example: purchase order encumbrance
- Loosely Constrained

Fund Balance- UNASSIGNED

Unassigned

- No spending restrictions.
- Can be used for any type of expense
 - (Only occurs in the General Fund)
- No Constraints.

- Corporate accounting method balance sheet and income statement
 - Balance sheet contains all assets and liabilities just like regular corporate financial statements.
 - Balance sheet reflects all capital assets and all debt activity.
 - Income statement reflects depreciation expense.

Government Wide Statements

- Balance Sheet Considerations:
 - Fixed assets (school buildings, CNP equipment, etc.)
 - Compensated absences
 - Pension and OPEB liability
 - Net position versus equity/ retained earnings

Government Wide Statements

- Income Statement Considerations

This thing looks crazy!

- Upside down and backwards
 - But - same accounting treatment as corporate financial statements.
- The concept is - what direct revenues support the government's expense functions.

Financial Statement Disclosures

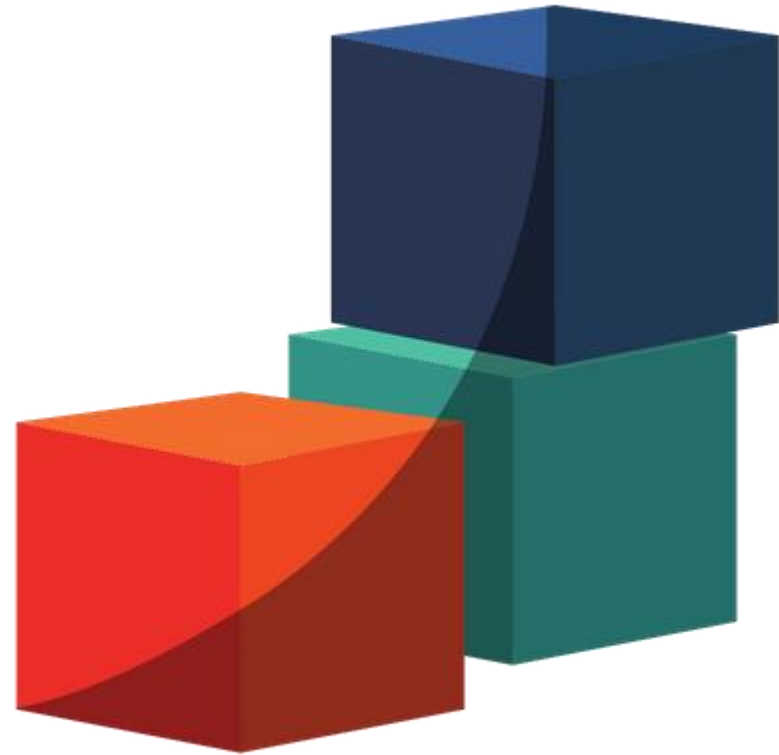
- Notes are combined for both sets of statements into only one note disclosure section.
- A description of the different basis types of accounting is disclosed.

Financial Statement Disclosures

- **Very Important** – a description of the reporting entity
- Other normal disclosures are in these footnotes such as property details, investment holdings, commitment and contingency details.

Basics – Independent Audits

- What a financial statement audit **is not**
- What an audit **is**
- Responsibilities
 - Auditor
 - Management
- Five assertions
- Phases of an audit



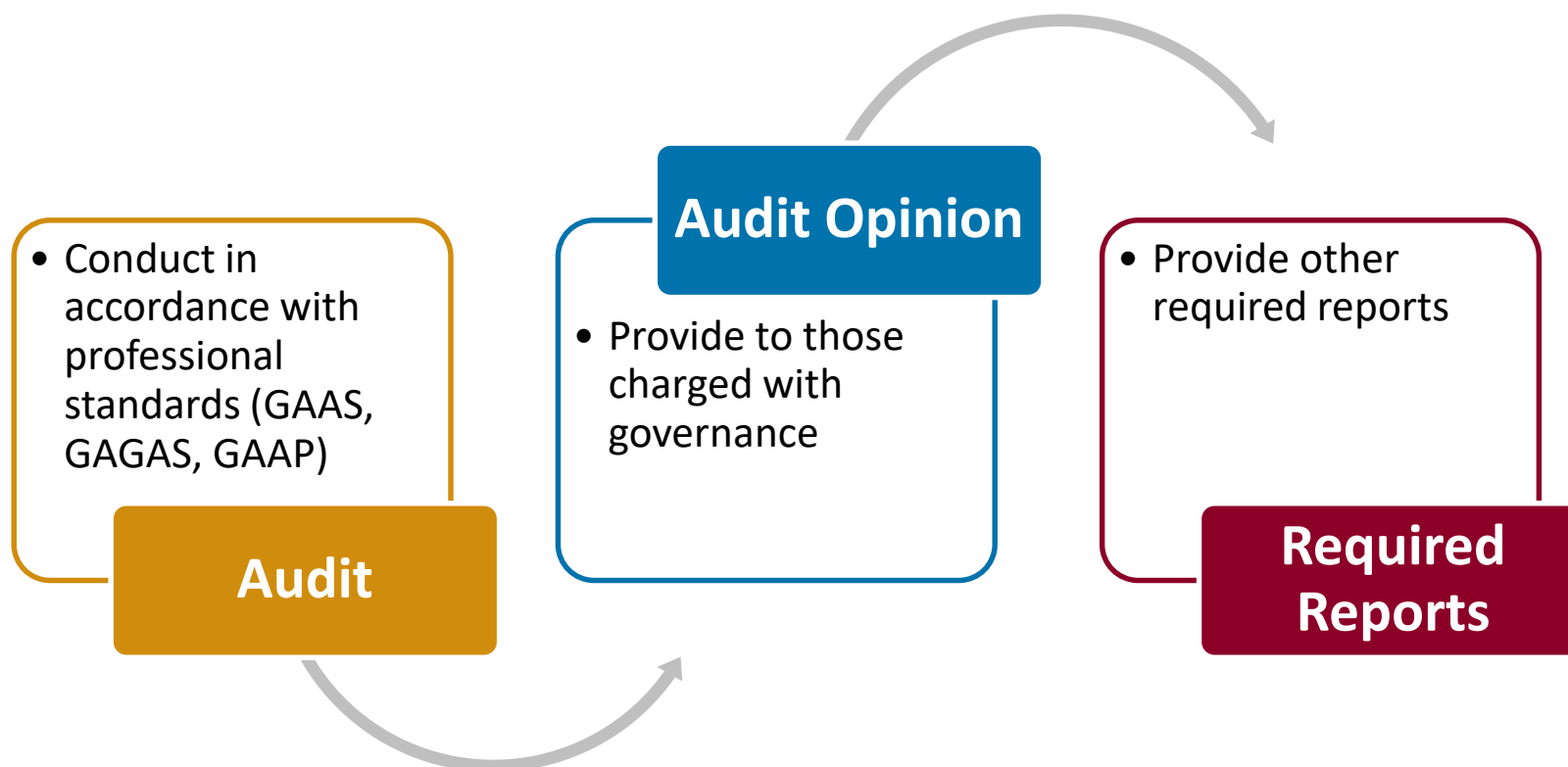
An Audit Is Not

- Outcome guarantee
- Absolute assurance that f/s are free of material misstatements – due to inherent limitations
- 100% examination of transactions
- Guarantee of fraud absence

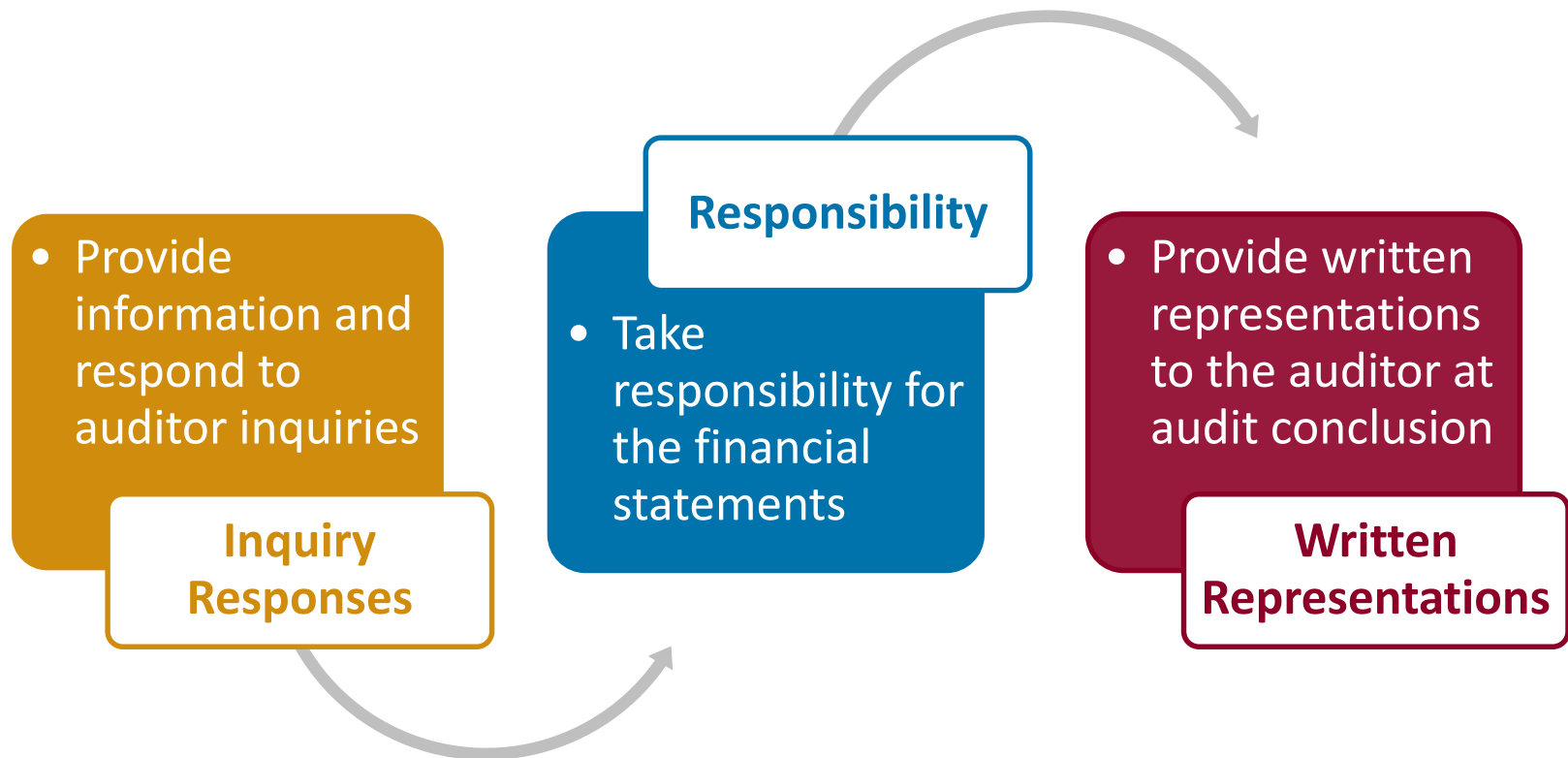
An Audit Is

- Statement of professional judgment after collection and evaluation of evidence to support an opinion on reliability of an entity's financial statements.
- Based on many different auditing procedures – and within the limits of materiality
- Based on samples of items contained within the financial records

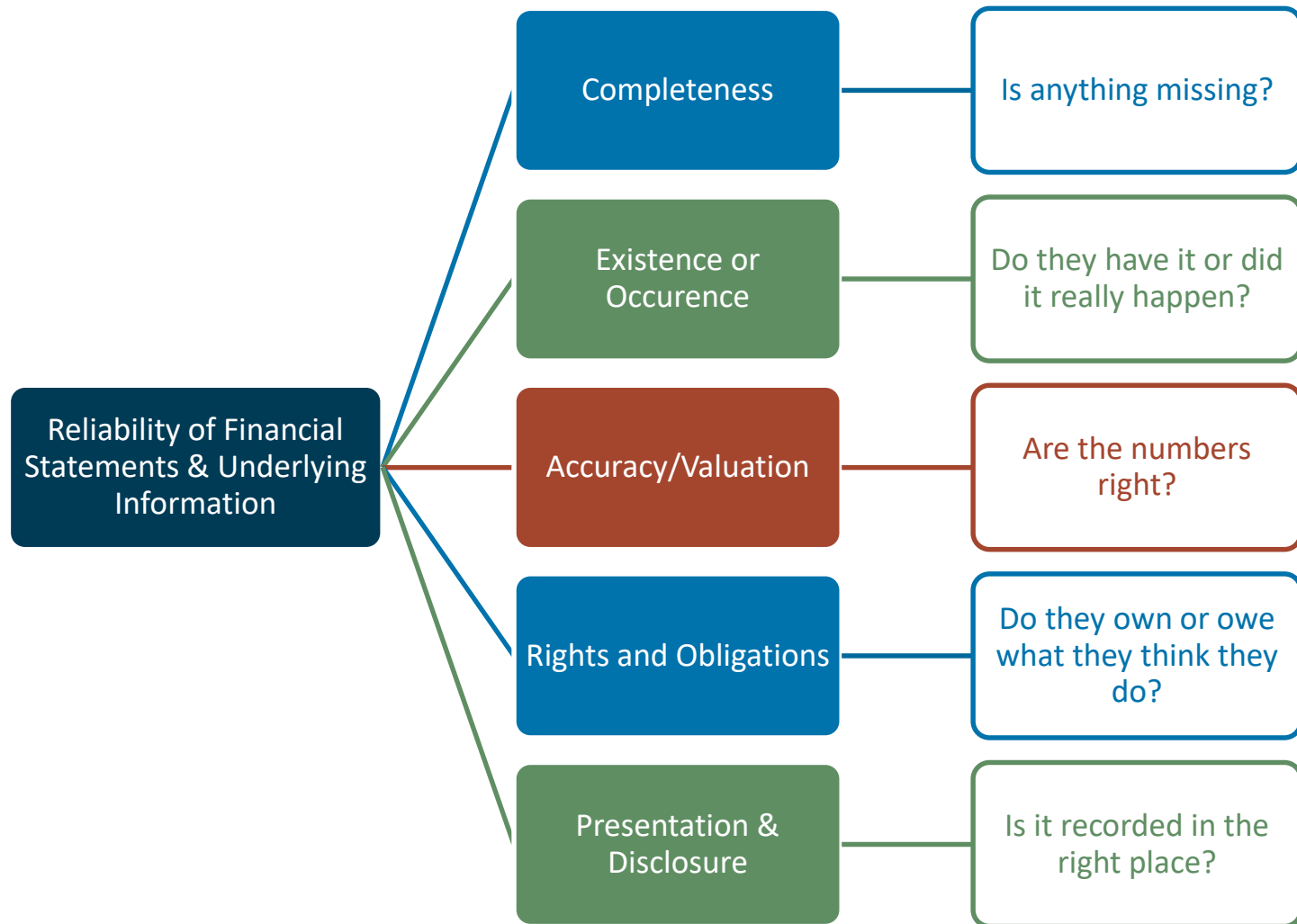
Auditor Responsibilities



Management Responsibilities



What Is An Auditor Looking for? 5 Assertions



Phases Of An Audit

- Planning
- Risk Assessment
- Internal Controls (Including IT)
- Substantive Procedures
- Wrap-up
- Reporting

Planning

- Engagement letter
- Understanding of the entity
- Planning meeting and brainstorming session
- Discussions with management
- Preliminary materiality
- Preliminary analytical review
- SOC reports



Relative Materiality

Would a \$100,000 error change your mind...



Paris, France



Paris, TN

Risk Assessment



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Risk Assessment Objective

Identify significant audit areas, document risks of material misstatement affecting each area, and design audit procedures to cover those risks.



Impact

Risk Profile

Likelihood

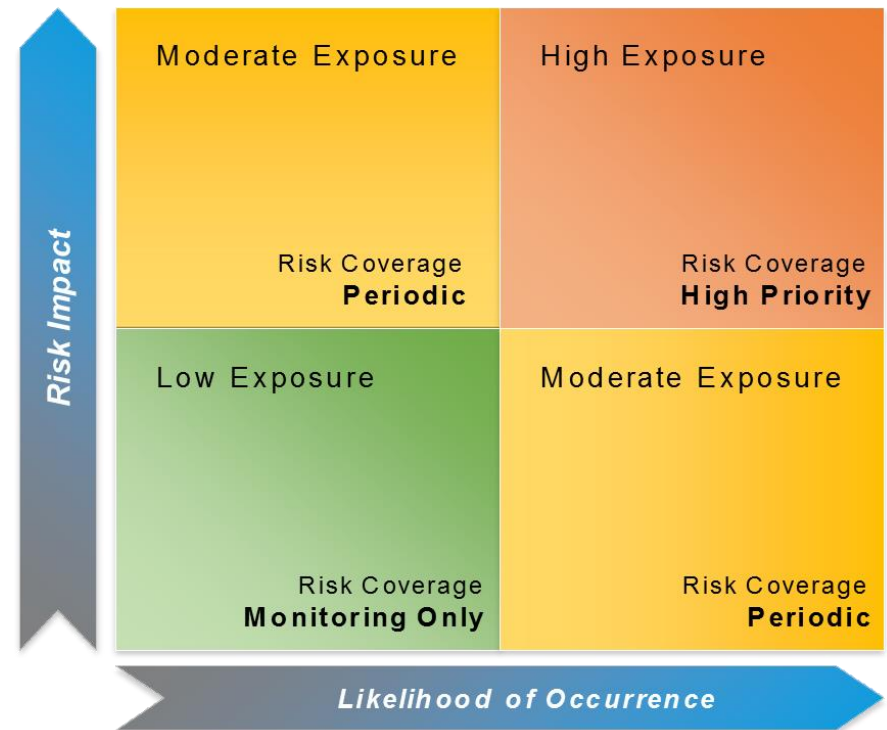
Risk Assessment

Inherent Risk

- Risk of an occurrence before the effect of any existing controls.
- If you were building this process, what would you be concerned about?
- What can we not prevent?

Residual Risk

- Risk remaining after application of controls.
- Potentially reduced impact or likelihood.



Risk Assessment



Overall question
driving risk
assessment is...



...What keeps you up
at night?

Risk Assessment

- Overall financial statement risk
- Identify and assess risks that could lead to a material misstatement in the financial statement
- High degree of auditor judgment and experience
- Cannot rely on inquiry alone
- Significant accounts and fraud risks
- For each significant account – determine risk for 5 assertions

Substantive Procedures

Auditor must consider *Sufficiency* and *Appropriateness* of audit evidence

Can involve:

- Physically observing or inspecting assets
- Examining records to support balances and transactions (including sampling)
- Obtaining confirmations from 3rd parties
- Comparison of elements of f/s to relevant external info (investment pricing/valuation)
- Verifying calculations

Audit Wrap-Up

- Fraud inquiries
- Final analytical review and materiality
- Litigation, claims and assessments - Attorney letter
- Subsequent events
- Representation letter
- Exit meeting with management

Reporting

- Financial statements and disclosures
- Independent auditors' opinion
- Yellow Book reports – Internal control and compliance
- Management letter
- Required communications

Management Letter

- A report exists from the auditor to the government that contains any significant deficiencies or material weaknesses related to internal controls or compliance that were discovered during the financial statement audit.
- Details any internal control weaknesses that may impact financial statement reporting or compliance weaknesses related to laws and regulations which a government follows.
- May not contain all matters because a financial statement audit is not designed to detect all of the internal control and compliance weaknesses that may be occurring.

Internal Controls

The Basics

Internal Controls: The Basics

- Understanding internal controls
 - Internal Controls – A process, effected by those charged with governance, management, and other personnel, designed to provide assurance about the achievement of the entities' objectives.
 - Entities' objectives – Reliable financial reporting, efficiencies and effectiveness of operating, compliance with applicable laws and regulations.

Internal Controls: The Basics

- Committee of Sponsoring Organizations (COSO)
 - The COSO Framework for internal controls represents means used by an entity to help achieve their objectives.
 - Updated in 2013 – Effective after December 15, 2014
 - Retained underlying principals – builds on the original framework

COSO Update and Framework

Internal Control - Background

- 5 Interrelated components
 1. Control environment
 2. Risk assessment
 3. Control activities
 4. Information and communication
 5. Monitoring
- Component further broken down into 17 principles



COSO Update: Principles of Effective Internal Control

Control Environment	<ol style="list-style-type: none">1. Demonstrates commitment to integrity and ethical values2. Exercises oversight responsibility3. Establishes structure, authority and responsibility4. Demonstrates commitment to competence5. Enforces accountability
Risk Assessment	<ol style="list-style-type: none">6. Specifies suitable objectives7. Identifies and analyzes risk8. Assesses fraud risk9. Identifies and analyzes significant change
Control Activities	<ol style="list-style-type: none">10. Selects and develops control activities11. Selects and develops general controls over technology12. Deploys through policies and procedures
Information and Communication	<ol style="list-style-type: none">13. Uses relevant information14. Communicates internally15. Communicates externally
Monitoring Activities	<ol style="list-style-type: none">16. Conducts ongoing and/or separate evaluations17. Evaluates and communicates deficiencies

COSO Update: Clarifying Effective Internal Control

- Effective internal control provides reasonable assurance regarding the achievement of objectives and requires that:
 - Each component and each relevant principle is present and functioning.
 - The five components are operating together in an integrated manner.
- Each principle is suitable to all entities; all principles are presumed relevant except in rare situations where management determines that a principle is not relevant to a component (e.g., governance, technology).

COSO Update: Categories of Objectives

- **Operations:** Directed to effectiveness and efficiency, including operational and financial performance goals and safeguarding assets from loss.
- **Reporting:** Relate to internal and external financial and non-financial reporting, including reliability, transparency, timeliness, or other terms determined by standard setters, regulators, or the policies of the organization.
- **Compliance:** Pertain to adherence to applicable laws and regulations.

Five Components of the COSO Integrated Framework

- **Control Environment**

- Sets the tone of an organization.
- Foundation for all other components of internal control, providing discipline and structure.
- Factors include the integrity, ethical values, management's operating style, delegation of authority systems, as well as the processes for managing and developing people in the organization.

- **Risk Assessment**

- External and internal sources that must be assessed.
- Identification and analysis of relevant risks to the achievement of assigned objectives.
- Evaluating what could go wrong.

Five Components of the COSO Integrated Framework

- **Control Activities**

- Policies and procedures that help ensure management directive are carried out.

- **Information & Communication**

- Flow of information and how it is communication both upstream and downstream.

- **Monitoring**

- Internal control processes need to be monitored.
- According to COSO, if internal controls are not monitored they do not exist.

Effects on the Entity: Control Environment

- *How does this relate to my role at my Entity?*
 - Must exercise a “tone at the top” that will not deviate from established internal controls
 - If a deviation occurs, what are the consequences? Are they communicated?
 - Does the City Council, County Manager, Superintendent, etc., and all of top management abide by the policies in place?

Effects on the Entity: Risk Assessment

- *How does this relate to my role at my Entity?*
 - Must continually assess the risks that are present regarding the internal control structure
 - Evaluating what could go wrong?
 - What if there is turnover in certain departments?
 - What are the assets that must be safeguarded?
 - Is more training needed?
 - Is this part of the hiring practices?

Effects on the Entity: Control Activities

- *How does this relate to my role at my Entity?*
 - Must implement a system to respond to the risks and achieve the objectives set forth by the governing body
 - Safeguard assets
 - Promote timely, accurate and reliable financial reporting
 - Ensure department heads are executing a control environment that is in line with the overall control environment

Effects on the Entity: Info and Communication

- *How does this relate to my role at my Entity?*
 - Is there a methodology for gathering this information and disseminating it throughout the Entity? What is the best way to communicate this to department heads, administrators, and all the employees?
 - Does no good to have the best internal controls designed but can't get the information out to the departments and locations

Effects on the Entity: Monitoring

- *How does this relate to my role at my Entity?*
 - Last, but not least (in fact the most important), how to monitor the internal controls
 - Continued evaluation of the design
 - Evaluate effectiveness
 - Do you test internal controls over financial reporting and over compliance?
 - Do you look at transactions and ensure they are subject to what is supposed to happen?

Effects on the Entity: Monitoring

- *How does this relate to my role at my Entity?*
 - Monitoring (continued)
 - What are some methods for monitoring internal controls?
 - Periodic evaluation and testing by internal audit
 - Using information systems
 - Analysis and follow up on reports that might identify anomalies indicative of control failure
 - Supervisory reviews
 - Self assessments of the “tone at the top”

Effects on the Entity: Monitoring

- *How does this relate to my role at my Entity?*
 - Monitoring (continued)
 - When problems are identified, do you correct them on a timely basis?
 - Taking corrective action
 - Evaluation of the organizational structure
 - Look at capabilities, objectivity, and authority

Internal Controls

*Types, Evaluating Effectiveness,
and Implementation*

Internal Controls

- Two Types of Internal Controls
 - Preventative
 - Designed to provide reasonable assurance that only valid transactions are recognized, approved, and submitted for processing.
 - Most preventative controls are applied before the processing activity occurs.
 - Detective
 - Detective controls are designed to provide reasonable assurance that errors or irregularities are discovered and corrected on a timely basis.
 - Detective controls are normally performed after processing has been completed.

Internal Control – Categories of Controls

Four Main Categories:

- Manual Controls
- IT Dependent Manual Controls
- Application Controls
- IT General Controls

Internal Control – Manual Controls

- Manually performed by individuals
 - Outside of an accounting system
- Examples:
 - Approvals, authorization and verifications
 - Reconciliations
 - Segregation of duties

Internal Control – IT Dependent Manual

- Manually performed by individuals
 - Require some level of system involvement
- Examples:
 - Approvals, authorization and verification
 - Review of system generated reports

Internal Controls – Application Controls

- “System Controls”- often times automated and behind-the-scenes.
- Examples:
 - System lock-out
 - Updates to software, security patches

Internal Controls - ITGC

- Logical access to system and data
- Change management
- Physical security
- System and data backup and recovery

Examples of Internal Controls

- Purchase Orders
- Having an independent employee review the accounts payable master list periodically to ensure only valid vendors have been added
- Conducting periodic surprise inventory counts
- Bank Reconciliations Reviewed Timely (Documented)
- Using Pre-numbered Receipting
- Locking Up Blank Check Stock
- Three-way Match (PO, Invoices, Check)

Local School Accounting Policies/Procedures

FINANCIAL PROCEDURES FOR LOCAL SCHOOLS



ALABAMA DEPARTMENT OF EDUCATION

Local School Accounting Policies/Procedures

Procedures adopted by the local school district

- Approved and adopted by the local board
- May be more restrictive than the SDE procedures

Local School Accounting Policies/Procedures

- Used to aid in determining specific audit procedures – framework for our testing
- Particularly with regard to compliance/attribute sampling & testing

Internal Control Concerns at Local Schools

- Bookkeepers with full access to the accounting software
- Administrators often do not have accounting backgrounds
- Activity is decentralized from central office
- System controls may not be fully programmed
- Receipts are from many different sources

Internal Controls

- Key Controls
 - Controls that significantly reduce the chance of a material misstatement or material noncompliance.
 - Need to document assertions as well

Internal Controls

- Evaluating Internal Controls
 - Design and Implementation
 - Operating Effectiveness

Evaluating Control Design

- The process for evaluating control design includes your consideration of:
 - The risk of what can go wrong at the assertion level.
 - The likelihood and significance of the risks, irrespective of internal control considerations.
 - The relevant control objectives (assertions).
 - The controls, either individually or in combination, that satisfy each control objective.

Evaluating Control Design

- To evaluate whether controls have been designed to satisfy each control objective, it is helpful to consider:
 - Whether the control or combination of controls would – if operated as designed – likely meet the control objective.
 - Whether the controls necessary to meet the control objective are in place.

The control objective for control activities in ICFR are the financial statement assertions.

Determining if the Control Has Been Implemented

- Determining whether a control has been implemented is important because it confirms your understanding of control design and helps ensure that your risk assessment is based on accurate information.
- However, it is not unusual for personnel to use a control differently from the way it is described in the policy manual or in response to inquiries you make of someone else.
 - Example: Client accounting policy manual may state that physical inventory accounts are performed annually. However, due to increases in the volume of transactions, client deviates from stated policy and counts some inventory items twice a year. This practice is not reflected in the policy manual and is not known by all individuals in the company.

Determining if the Control Has Been Implemented

- The determination of whether a control has been put in place and is implemented involves obtaining evidence about whether those individuals responsible for performing the prescribed procedures have:
 - An awareness of the existence of the procedure and their responsibility for its performance, and
 - A working knowledge of how the procedure should be performed.
- Determining whether the control has been implemented does not require you to determine whether the control was performed properly throughout the audit period.

Internal Control Over Financial Reporting (ICFR)

- If a weakness in design or implementation is noted during the audit it can result in:
 - Material Weakness
 - A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis
 - Significant Deficiency
 - A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Fraud and the Fraud Triangle



What is Fraud?

- Fraud can be defined a number of ways:
 - A deception deliberately practiced in order to secure unfair or unlawful gain (American Heritage Dictionary).
 - An intentional representation that an individual knows to be false, or does not believe to be true, knowing that the representation could result in some unauthorized benefit to himself/herself or some other person.

Occupational Fraud & Abuse

- Definition
 - “The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets”
- Occupational fraud schemes – median length of schemes before detection: 18 months

How Much Does it Cost?

- Estimate of fraud as a percent of Gross World Product:
 - 5%
- In real numbers:
 - Based on the Gross World Product – estimated fraud is \$3.5 trillion.
- This is on an annual basis!
- Median loss caused by occupational fraud in recent Association of Certified Fraud Examiners study is \$150,000.
- Fraud, by its true nature is hidden, and so the true amount of fraud taking place at any one time cannot really be known.

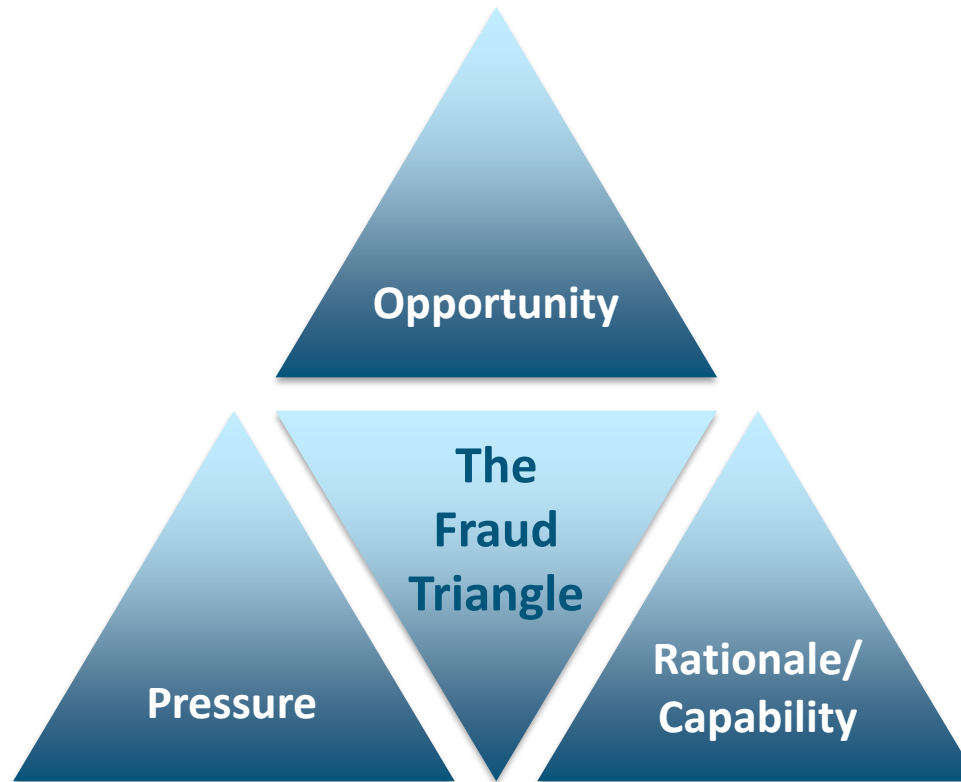
It'll Never Happen to Me!

- Percent of companies estimated to be affected by fraud:
 - 98%
- Percent of cases by organizational type:
 - 39% Private companies
 - 28% Public companies
 - 17% Government
 - 10% Not-for-Profit organizations

Victim Organizations

- What are the primary internal control weaknesses?
 - 35.5% Lack of internal controls
 - 19.4% Override of existing internal controls
 - 18.7% Lack of management review
 - 9.1% Poor tone at the top
 - However, cited as the primary factor in 18% of cases that resulted in a loss of \$1 million or more
 - 7.3% Lack of competent personnel in oversight roles

The Fraud Triangle



Pressure

- A non-shareable financial need
 - Living beyond their means
 - Overwhelming desire for personal gain
 - Feeling pay was not commensurate with responsibility
 - Undue family or peer pressure
 - Unreasonable family expectations
 - Family illness
 - Spouse losing job



More Pressures

- Addictions
 - Gambling
 - Drugs
- Greed or satisfaction of self-desires
- A wheeler-dealer attitude
- Strong challenge to beat the system
- High personal debt

Know Thy Employees!

- Be aware of what is happening in their lives.
- Big frauds more often used to:
 - Buy new homes, new expensive vehicles
 - Expensive vacations
 - Pay off debt or other obligations

Know Thy Employees!

- In 81% of cases, the fraudster displayed one or more behavioral red flags that are often associated with fraudulent conduct.
 - 36% Living beyond means
 - 27% Financial difficulties
 - 19% Unusually close association with vendors or customers
 - 18% Excessive control issues

Rationalization

- Employer/employee relations
 - My employer is cheating me so it is okay if I cheat him or her.
 - Unrealistic expectations or goals.
- Employer/customer relations
 - My employer is dishonest towards others, so it is okay if I cheat him or her.

More Rationalizations

- Rationalization of the End Result
 - No harm, no foul
 - Lack of meaningful consequences
- Feelings of superiority, privilege or untouchability
 - Feeling that standards only apply to the “little people”
 - Feeling that they won’t get caught; or if caught, not challenged
- Independent business owners:
 - It’s really my money, so I can’t really steal from myself, can I?

Opportunity

- Lack of internal controls.
- Nobody watching the store!
 - The stronger the perception that theft will be detected, the less likely an employee will engage in such behavior.
- Formal organizational and employee controls and policies are only useful if they are enforced.

Opportunity

- Environment and Enforcement
 - Weak environment due to failure to “walk the talk”
 - No “enforced” code of ethics
- Opportunities Resulting from Ineffective Controls
 - Lack of segregation of duties
 - Unrestricted access
 - Ineffective oversight

Primary Areas of Audit Focus at Local Schools

- Financial reporting
- Cash receipts/collections/deposits
- Purchasing/cash disbursements
- Bank reconciliations
- Journal entries & transfers
- Cash on hand
- Accounts payable

Financial Reporting

- Internal financial statement – consolidated with all accounts by category (public or nonpublic)
- Principal's Report – summary of each G/L account's activity: beginning to end of year

Remember – beginning balances must tie to prior year audited ending balances

Cash Receipts

- Review of the collection process – beginning to end
- Depending on the accounting system/method, be sure that all teacher receipt books are available, along with deposit slips and bank information

Cash Receipts

Typical audit testing procedures:

- Selection of master receipts from months throughout the fiscal year
- Tracing to teacher receipts or other support (fundraising report, ticket sales report, etc.)

Cash Receipts

Determination of whether funds received are:

- 1- Properly documented and traceable from supporting documentation to master receipt
- 2 - Turned in to school bookkeeper in a timely manner
- 3 - Deposited by bookkeeper in a timely manner
- 4 - Recorded in the general ledger in the appropriate account

Cash Disbursements

- Review of the purchasing, payment and recording process – beginning to end
- Be sure records are readily available:
 - Purchase orders
 - Invoices
 - Evidence of approval to pay
 - Cancelled checks/bank statements

Cash Disbursements

Typical audit testing procedures:

- Selection of checks written from months throughout the fiscal year
- Tracing to supporting documentation

Cash Disbursements

Determination of whether expenditures are properly supported by appropriate supporting documentation

- 1 - Purchase order (initiated and approved PRIOR to making the purchase)
- 2 – Evidence of receipt of merchandise/goods
- 3 – Approval of payment by responsible party
- 4 – Recorded in the general ledger in the appropriate account

Cash Disbursements

- 5 – In compliance with bid law (if applicable)
- 6 – Appropriately added to capital asset inventory
- 7 – Allowable cost (public/nonpublic, legal, etc.)

Bank Reconciliations

- Auditor review to determine that reconciliations have been prepared
- Review of reconciling items to determine accuracy and propriety
- Confirm balances with bank
- Tie book balance to trial balance

Journal Entries & Transfers

Journal entries – changes to recorded transactions

- Should be supported by appropriate documentation that clearly shows the necessity for the entry
- Transfers between accounts should be supported by approved transfer form or other documentation

Cash on Hand

- Evaluate appropriate cash levels at each school
- Log all funds that are “checked out” for events
- Periodic counts by at least two people
- Possibly incorporate a surprise cash count

Accounts Payable

- Auditors perform a search for unrecorded liabilities
- May be required to provide support for large purchases after year-end

Other Thoughts

- Good practice for bookkeepers – keep notes from the year to help explain unusual situations or instances where controls were violated
- Interim/preliminary audit work – in some cases
- Discuss potential issues with your auditor – no surprises



Questions?

TODAY'S PRESENTERS

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