

**Internal Audit Department
Audit Program**

Fixed Assets - Establish Control	A.P. 2000
Fixed Assets - Vouch Transactions	A.P. 2001
Fixed Assets - Check depreciation	A.P. 2003
Fixed Assets - Check equipment	A.P. 2004
Prepaid Expense - Prepare supporting documentation and workpapers	A.P. 2008
Prepaid Expenses -Vouch debits and credits	A.P. 2009
Prepaid Expense -Prepare a summary of prepaid items	A.P. 2010
Prepaid Expenses - Check computation of amortization	A.P. 2011
Prepaid Expense – Verify Contra-Expense account entries	A.P. 2012
Accrued Expenses - Vouch debits and credits	A.P. 2013
Accrued Expenses - Prepare a summary of accrued expenses	A.P. 2014
Accrued Expenses - Check computation of accruals	A.P. 2015
Expenses - Supporting documentation and workpapers	A.P. 2025
Expenses - Documentation review	A.P. 2026
Expenses - Business expense review	A.P. 2027
Expense settlement and analysis	A.P. 2028
Expenses - Internal charges analysis	A.P. 2029
Expense - Review advance accounts	A.P. 2030
Analytical Review	A.P. 2048
Fixed Assets - Internal Control Questionnaire	A.P. 2050
Analytical Review & Income and Expense - Internal Control Questionnaire	A.P. 2052

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Fixed Assets - Establish Control

A.P. 2000

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
-------------	------------------------	--------------------------

- | | | |
|----|---|--|
| 1. | Prepare a trial balance of fixed assets by cost center.

a. Settle the totals to the general ledger. Note any exceptions or differences. | |
| 2. | Prepare a calculation and listing of accumulated depreciation by cost center.

a. Settle the totals to the general ledger. Note any exceptions or differences. | |
| 3. | Calculate and prepare a listing of monthly depreciation charges for equipment by cost center.

a. Compare the monthly totals obtained in (3) to the monthly depreciation expenses charged to selected cost centers. Note any differences and obtain explanations. | |
| 4. | Prepare a listing of additions to, disposals of, and retirements from Fixed Assets since the date of the last audit.

a. Prepare an overall settlement using the totals as of the last audit (balance as of the last audit, plus additions, less deletions and retirements, should equal the current balance). Obtain explanations for any differences. | |

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Fixed Assets - Vouch Transactions

A.P. 2001

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
1.	Vouch purchases to vendor's invoices or other supporting documentation.	
2.	Check details of trades to supporting documentation in the files. Determine the applicable entries to remove the original asset value and accumulated depreciation are made.	
3.	Check details of sales to supporting documentation in the files. Determine the applicable entries to remove the original asset value and accumulated depreciation are made.	
4.	Prepare a schedule of gain or loss on sale and check to general ledger. a. Recheck calculations.	
5.	List retirements since the date of the last audit.	
6.	Recalculate depreciation on applicable items and agree entries made when the asset was retired. Note any differences.	
7.	Check the details of any other adjustments found.	
8.	Check the addition, disposal, or retirement of all major items to approval in the minutes of the Board of Directors.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Fixed Assets -

Vouch Transactions (Cont'd)

A.P. 2001

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
9.	Review charges for maintenance and repair and correlate with maintenance contracts. a. Review maintenance contracts to determine charges made and service to be received for all items appearing in step (1) above. b. Determine to a reasonable degree, that work contracted for is being performed.	
10.	Review maintenance and repair accounts for any significant expenses that should have been capitalized.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Fixed Assets - Check depreciation

A.P. 2003

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
1.	Perform a limited test of the records to verify that depreciation methods are consistent with company policy, prior year's calculations, generally accepted accounting principles, and applicable laws and regulations of the IRS.	
2.	Review monthly depreciation charges on the general ledger since the date of the last examination and investigate any large variances.	
3.	Determine that the depreciation expense per the books agrees with the depreciation expense claimed on the income tax return. If not in agreement, obtain or prepare a reconciliation with explanation.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Fixed Assets - Check equipment

A.P. 2004

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
-------------	------------------------	--------------------------

- | | | |
|----|--|--|
| 1. | Using the list prepared in audit procedure 2000(2), check the physical presence of equipment for selected departments.

a. Note and obtain explanations for any missing items.
b. Note the general condition of equipment and list any items not in good working order or appearance. | |
| 2. | Review the inventory records to determine physical inventory counts are conducted periodically. | |

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Prepaid Expense - Prepare supporting
documentation and workpapers

A.P. 2008

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
-------------	------------------------	--------------------------

1. Prepare the following:
 - a. Vouch debits and credits workpaper.
 - b. Prepaid items summary workpaper.
 - c. Monthly amortization calculation workpaper.
 - d. Amortization expense calculation
workpaper.
 - e. Direct expense calculation workpaper.
 - f. Expense account settlement workpaper.

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Prepaid Expenses -
Vouch debits and credits

A.P. 2009

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
-------------	------------------------	--------------------------

Using the workpaper prepared in audit procedure 2008(1)(a), vouch debits and credits.

1. Debits, prepaid accounts:
 - a. Check proper account classification.
 - b. Check authorized approval.
 - c. Review invoice for reasonableness.
 - d. Examine paid checks.
 - e. Inspect and obtain explanation for any entries.

2. Credits, prepaid accounts:
 - a. Vouch credits other than monthly amortization entries to supporting documents.

**Internal Audit Department
Audit Program**

SECTION: Accounting
FUNCTION: Prepaid Expense -
Prepare a summary of prepaid items **A.P. 2010**

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
	Using the workpapers prepared in audit procedure 2008(1), perform the following.	
1.	Determine the unamortized balance in each prepaid account.	
2.	Check the balances determined in step (1) to the accounting worksheets. Account for any differences.	
3.	Check balance determined in steps (1) and (2) to the general ledger. Account for any differences.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Prepaid Expenses - Check computation
of amortization

A.P. 2011

<u>STEP</u>	<u>AUDIT PROCEDURE</u>	<u>REFERENCE/DONE BY</u>
--------------------	-------------------------------	---------------------------------

Using the workpapers prepared in audit procedure 2008(1), perform the following.

1. Determine the monthly accrual. Account for any differences between the audit computation and the general ledger.

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Prepaid Expense - Verify

Contra-Expense account entries **A.P. 2012**

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
	Using the workpapers prepared in audit procedure 2008(1), perform the following.	
1.	Determine the monthly amortization expense.	
2.	Determine the direct expense, debits. a. Check the proper account classification. b. Review invoice for authorized approval. c. Examine paid checks.	
3.	Determine the direct expense, credits. a. Vouch credits to supporting documents.	
4.	Prepare a settlement of the Contra-Expense account to the general ledger using entries obtained in steps (1), (2), and (3). Account for any differences.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Accrued Expenses -
Vouch debits and credits

A.P. 2013

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
1.	Determine the monthly accrual. Account for any difference between the audit computation and the general ledger.	
2.	Debits: <ul style="list-style-type: none">a. Check the proper account classification.b. Check the authorized approval.c. Review the invoice for regularity.d. Examine the paid check.e. Inspect and obtain explanations for any unusual entries.	
3.	Credits: <ul style="list-style-type: none">a. Vouch credits other than monthly accrual entries to supporting documents.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Accrued Expenses - Prepare a
summary of accrued expenses

A.P. 2014

<u>STEP</u>	<u>AUDIT PROCEDURE</u>	<u>REFERENCE/DONE BY</u>
1.	Determine the balance in each accrued account.	
2.	Check balances determined in step (1) to general ledger supporting workpapers. Account for any differences.	
3.	Check balances determined in steps (1) and (2) to the general journal. Account for any differences.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Accrued Expenses - Check computation
of accruals

A.P. 2015

<u>STEP</u>	<u>AUDIT PROCEDURE</u>	<u>REFERENCE/DONE BY</u>
--------------------	-------------------------------	---------------------------------

- | | | |
|----|---|--|
| 1. | Determine the monthly expense and prove the expense account balance. | |
| a. | Determine the accrual expense [from audit procedure 2012(1)]. | |
| b. | Determine direct expense. | |
| c. | Total of (a) and (b) plus prior month's balance should equal balance in expense account. Account for any differences. | |

**Internal Audit Department
Audit Program**

SECTION: Accounting
FUNCTION: Expenses - Supporting documentation
and workpapers

A.P. 2025

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
-------------	------------------------	--------------------------

- | | | |
|----|--|--|
| 1. | Prepare the following: <ul style="list-style-type: none">a. Expense test/documentation workpapers.b. Business expense workpapers.c. Expense settlement.d. Expense analysis.e. Internal charges analysis. | |
|----|--|--|

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Expenses - Documentation review

A.P. 2026

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
-------------	------------------------	--------------------------

Using the audit workpapers prepared in audit procedure 2025(1)(a):

- | | | |
|----|---|--|
| 1. | Obtain entries for the items selected.

a. Check entry for authorized approval.
b. Check entry for proper classification as to account number and amount. | |
| 2. | Obtain invoices for the applicable items selected.

a. Check the invoice for authorized approval.
b. Check the invoice for proper classification as to account and type of expense.
c. Determine if the item has been reviewed.
d. Determine if the vendor is in conformance with the contract or agreement. | |
| 3. | Obtain paid checks for the applicable items selected.

a. Compare pages to description.
b. Examine the check for proper endorsement. | |
| 4. | Review the minutes of the Board of Directors for any items in the selection that necessitate approval.

a. Prepare a list of any items in the selection that are not reviewed in the minutes but appear to warrant Board approval. | |

**Internal Audit Department
Audit Program**

SECTION: Accounting
FUNCTION: Expenses - Business
expense review

A.P. 2027

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
-------------	------------------------	--------------------------

Using the workpapers prepared in audit procedure 2025(1)(b):

- | | | |
|----|--|--|
| 1. | Obtain expense reports for the items selected. <ul style="list-style-type: none">a. Check the item on the expense report for proper classification on listing.b. Check the expense report for the signature of the employee.c. Check the expense report for authorized approval. | |
| 2. | Obtain paid checks for the applicable items selected. <ul style="list-style-type: none">a. Examine the check to see if the payee matches the description.b. Examine the check for proper endorsement. | |
| 3. | Review selected items for amounts exceeding \$25.00. <ul style="list-style-type: none">a. These items must be accompanied by receipts to comply with IRS regulations. | |
| 4. | Determine that expenses reviewed are not related to political contributions in any way. Such expenses are in violation of 2 USC 441(b). | |

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Expense settlement and analysis

A.P. 2028

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
1.	Using the workpaper prepared in audit procedure 2025(1)(c), settle expense totals to the income statement.	
2.	Using the workpaper prepared in audit procedure 2025(1)(d): <ul style="list-style-type: none">a. analyze monthly expense account balances and determine their reasonableness.b. Analyze monthly expense account balance variances in relation to the monthly budget figure.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Expenses - Internal charges analysis **A.P.** 2029

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
-------------	------------------------	--------------------------

Using the workpaper prepared in audit procedure 2025(1)(e):

1. Verify that the Internal Fees account, which is the credit balance, is offset by the debit balance internal charge expense account. Obtain an explanation for a non-zero balance position.

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Expense - Review advance accounts

A.P. 2030

<u>STEP</u>	<u>AUDIT PROCEDURE</u>	<u>REFERENCE/DONE BY</u>
--------------------	-------------------------------	---------------------------------

- | | | |
|----|--|--|
| 1. | Prepare an analysis of the balance in each account. | |
| 2. | Determine if the items are authorized. | |
| 3. | Review for proper and timely clearance. Note and discuss any items over one month. | |

**Internal Audit Department
Audit Program**

SECTION: Accounting
FUNCTION: Analytical Review

A.P. 2048

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
1.	Determine if any significant changes have occurred in: <ul style="list-style-type: none">a. Operations, including new services.b. Accounting practices or records.c. Financial reporting.d. General business conditions.	
2.	Obtain the Company's current financial statements, internal operating reports, interim financial statements, and daily statements of condition or other available financial information. Review this information staying alert for the development or continuation of adverse trends and other significant or unusual trends or fluctuations. Primary considerations should include whether: <ul style="list-style-type: none">a. Earnings are static or declining as a percentage of total resources.c. The ratio of operating expense to operating revenue is increasing.d. Earnings trends are inconsistent.g. There is evidence that sources of interest and other revenues have changed since the last audit.h. Earnings are deemed inadequate to provide increased capitalization commensurate with the Company's growth.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Analytical Review (Cont'd)

A.P. 2048

STEP	AUDIT PROCEDURE	REFERENCE/DONE BY
3.	<p>Obtain and review the Company's formalized planning procedures, profit plans, budgets, mid- and long-range financial plans, economic advisory reports, and any progress reports related to any of those and:</p> <ul style="list-style-type: none">a. Compare actual results to budgeted amounts.b. Determine the impact of any broad and important specific goals which have been set.c. Determine the frequency of planning revisions.d. Determine what triggers a specific plan revision.e. Determine who initiates plan revisions.f. Determine whether explanations are required for significant variations and whether causes are ascertained in implementing corrective action.g. Determine the sources of input for forecasts, plans and budgets.	
4.	<p>Review with officers of the Company and prepare, in appropriate report format, listings of:</p> <ul style="list-style-type: none">a. Deficiencies in and deviations from, policies, practices, procedures, and internal controls.b. Violations of law.c. Adverse trends.d. Comments on earnings.	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Fixed Assets -

Internal Control Questionnaire **A.P. 2050**

STEP	PROCEDURE TO BE VERIFIED	REFERENCE/DONE BY
-------------	---------------------------------	--------------------------

Custody of Property

1. Do the Company's procedures preclude persons who have access to property from having "sole custody of property", in that:

- a. Its physical character or use would make any unauthorized disposal readily apparent?
- b. Inventory control methods sufficiently limit accessibility?

Additions, Sales and Disposals

2. Is the addition, sale or disposal of property approved by the signature of an officer who does not also control the related disbursement or receipt of funds?

3. Is board of directors' approval required for all major additions, sales or disposals of property (if so, indicate the amount that constitutes a major addition, sale or disposal \$_____)?

4. Is the preparation, addition and posting of property additions, sales and disposals records, if any, performed and/or adequately reviewed by persons who do not also have sole custody of property?

5. Are any property additions, sales and disposals records, balanced, at least annually, to the appropriate general controls by persons who do not have sole custody of property?

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Fixed Assets - ICQ (Cont'd)

A.P. 2050

<u>STEP</u>	<u>PROCEDURE TO BE VERIFIED</u>	<u>REFERENCE/DONE BY</u>
--------------------	--	---------------------------------

- | | | |
|----|---|--|
| 6. | Are the Company's procedures such that all additions are reviewed to determine whether they represent replacements and that any replaced items are cleared from the accounts? | |
| 7. | Do the Company's procedures provide for signed receipts for removal of equipment? | |
| 8. | Do the Company's policies cover procedures for selecting a seller, servicer, insurer, or purchaser of major assets (through competitive bidding, etc.), to prevent any possibility of conflict of interest or self-dealing? | |
| 9. | Do review procedures provide for appraisal of an asset to determine the propriety of the proposed purchase or sales price? | |

Depreciation

- | | | |
|-----|---|--|
| 10. | Is the preparation, addition and posting of periodic depreciation records performed and adequately reviewed by persons who do not also have sole custody of property? | |
| 11. | Do the Company's procedures require that depreciation expenses be charged at least quarterly? | |
| 12. | Are the subsidiary depreciation records balanced, at least annually, to the appropriate general controls by persons who do not also have sole custody of property? | |

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Fixed Assets - ICQ (Cont'd)

A.P. 2050

<u>STEP</u>	<u>PROCEDURE TO BE VERIFIED</u>	<u>REFERENCE/DONE BY</u>
-------------	---------------------------------	--------------------------

Property Records

13. Are subsidiary property records posted by persons who do not also have sole custody of property?

14. Are the subsidiary property records balanced, at least annually, to the appropriate general ledger accounts by persons who do not also have sole custody of property?

(Company as Lessor)

15. Do policies provide for division of the duties involved in billing and collection of rental payments?

16. Are the lease agreements subject to the same direct verification program applied to other Company assets and liabilities?

17. Are credit checks performed on potential lessees?

18. Do policies provide for a periodic review of lessees for undue concentrations of affiliated or related concerns?

(Company as Lessee)

19. Does the Company have a clearly defined method of determining whether fixed assets should be owned or leased, and is supporting documentation maintained by the Company?

20. Are procedures in effect to determine whether a lease is a "capital" or an "operating" lease as defined by the generally accepted accounting principles?

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Fixed Assets - ICQ (Cont'd)

A.P. 2050

STEP	PROCEDURE TO BE VERIFIED	REFERENCE/DONE BY
-------------	---------------------------------	--------------------------

21. Do the Company's operating procedures provide, on "capital" leases, that the amount capitalized is computed by more than one individual and/or reviewed by an independent party?

Other Procedures

22. Is the physical existence of Company equipment periodically checked or tested, such as by a physical inventory, and are any differences from property records investigated by persons who do not also have sole custody of property?

23. Do the Company's procedures provide for serial numbering of equipment?

24. Are the Company's policies and procedures on property in written form?

25. Is the benefit of expert tax advice obtained prior to final decision-making on significant transactions involving fixed assets?

26. Does the Company maintain separate property files which include invoices (including settlement sheets and bills of sale, as necessary), titles (on real estate, vehicles, etc.) and other pertinent ownership data as part of the required documentation?

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Analytical Review & Income and Expense -
Internal Control Questionnaire **A.P. 2052**

STEP	PROCEDURE TO BE VERIFIED	REFERENCE/DONE BY
1.	Does the Company have a budget? If so,	
a.	Is it reviewed and approved by managerial personnel and/or the board of directors?	
b.	Is it periodically reviewed and updated for changed conditions?	
c.	Are periodic statements compared to budget and are explanations of variances reviewed by management?	
d.	Is a separate budget prepared by the manager of each department or division?	
2.	Does the Company's accounting system provide sufficiently detailed breakdowns of accounts to enable it to analyze fluctuations?	
3.	Are the general books of the Company maintained by someone who does not have access to cash?	
4.	Are all general ledger entries processed through the proof department?	
5.	Are all entries to the general ledger supported by a general ledger ticket?	
6.	Do general ledger tickets, both debit and credit, bear complete approvals, descriptions and an indication of the offset?	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Analytical Review & Income and Expense -
ICQ (Cont'd)

A.P. 2052

STEP	PROCEDURE TO BE VERIFIED	REFERENCE/DONE BY
-------------	---------------------------------	--------------------------

7. Are all general ledger entries approved by a responsible person other than the general ledger bookkeeper or person associated with its preparation?

8. Is the general ledger posted daily?

9. Is a daily statement of condition prepared?

10. Are corrections to ledgers made by posting a correcting entry and not by erasing (manual system) or deleting (computerized system) the incorrect entry?

11. Are supporting worksheets or other records maintained on accrued expenses and taxes?

12. Are those supporting records periodically reconciled with the appropriate general ledger controls?

13. Are any accounts payable maintained on the accrual basis of accounting?

Purchases

14. If the Company has a separate purchasing department, is it independent of the accounting and receiving departments?

15. Are adequate numbers of bids received on large orders?

16. Are these bids maintained for documentation purposes?

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Analytical Review & Income and Expense -
ICQ (Cont'd)

A.P. 2052

STEP	PROCEDURE TO BE VERIFIED	REFERENCE/DONE BY
17.	Are purchases made only on the basis of requisitions signed by authorized individuals? Are requisitions properly completed?	
18.	Are all purchases routed through a purchasing department or personnel functioning in that capacity?	
19.	Are all purchases made by means of prenumbered purchase orders sent to vendors? Are all purchase orders on file?	
20.	Are all invoices received checked against purchase orders and receiving reports?	
21.	Are all invoices tested for clerical accuracy?	
22.	Are invoice amounts credited to their respective accounts and tested periodically for accuracy?	
23.	Does any one supplier receive an excessive amount of Company business?	
Disbursements		
24.	Is the payment for all purchases, except minor items, made by official check?	
25.	Does the official signing the check review all supporting documents?	
26.	Are supporting vouchers and invoices canceled to prevent re-use?	

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Analytical Review & Income and Expense -
ICQ (Cont'd)

A.P. 2052

STEP	PROCEDURE TO BE VERIFIED	REFERENCE/DONE BY
-------------	---------------------------------	--------------------------

27. Are duties and responsibilities in following areas segregated?

- a. Authorization to issue expense checks?
- b. Preparation of expense checks?
- c. Signing of expense checks?
- d. Sending of expense checks?
- e. Use and storage of facsimile signatures?
- f. General ledger posting?
- g. Subsidiary ledger posting?

Prepaid Expenses

28. Are capitalized items properly authorized?

29. Is amortization properly authorized or otherwise supported?

30. Are lump-sum charge-offs properly authorized?

31. When prepaid items are purchased, is the Company policy uniform with regard to charges to assets and charges to expenses?

32. Are refunds properly accounted for?

33. Is amortization considered proper for prepaid items?

**Internal Audit Department
Audit Program**

SECTION: Accounting

FUNCTION: Analytical Review & Income and Expense -
ICQ (Cont'd)

A.P. 2052

<u>STEP</u>	<u>PROCEDURE TO BE VERIFIED</u>	<u>REFERENCE/DONE BY</u>
--------------------	--	---------------------------------

Accrued Expenses

34. Are accrual items properly authorized or otherwise supported?
35. Are payment of expenses that accrued items were initiated for authorized by an officer?
36. Are adjustment to accruals properly documented and accounted for?
37. Do the accruals appear to be proper for accrued expense items?