

**THE XYZ COMPANY, INC.
IS AUDIT DEPARTMENT
APPLICATION REVIEW**

Division Merchandise Control System

AUDIT STEPS	W\P REF.	DON E BY	DATE
<p>I. PLANNING:</p> <p>A. Review available prior audit workpapers and audit reports. Be certain to consider both external and internal audit reports.</p> <p>B. Review the permanent binder, if available.</p> <p>C. Define the audit objectives and scope and submit these to the Manager of IS Audit for review. Be sure to address significant audit exclusions.</p> <p>D. Customize the audit program as necessary and submit it to the Manager of IS Audit for review.</p> <p>E. Define the budget hours by appropriate categories and submit them to the Manager of IS Audit for review.</p> <p>F. Review available audit software for testing this application. Determine if additional software is required to perform the level of testing required. Complete software request forms and submit them to the IS Audit Manager for approval.</p> <p>G. Make personnel assignments and obtain approval from the Manager of IS Audit.</p> <p>H. Conduct the necessary pre-audit briefing and training meetings with the assigned staff.</p> <p>II. AUDIT OPENING:</p> <p>A. Obtain the most recent copy of the organization chart.</p> <p>B. Prepare the audit notification memo and submit it to the Manager of IS Audit for approval.</p>			

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- C. Contact the appropriate management personnel and schedule the entrance meeting.
- D. Conduct the entrance meeting, providing the auditee with a copy of the audit notification memo. Be sure to ask management if they have any specific concerns we should be aware of.

III. FAMILIARIZATION:

Note: This section may not be applicable for all application reviews. A familiarization step may be necessary if the application has never been previously reviewed or if major changes have been made to the application since the last review.

- A. Review reference materials in the IS audit library for any subjects applicable to the area being audited, use additional references as necessary.
- B. Review all available application and user documentation to obtain a good overall understanding of the application.
- C. If not already available, develop a system overview flowchart showing all of the input feeds and output streams. If necessary, produce supporting narrative documentation.
- D. If not already available, develop a process flowchart showing the operational process around the application.
 - 1. Identify and document the major input items for this application. Include in the documentation the input methods used (i.e. batch, on-line memo post / real time, etc.). Be sure to include a listing of the transaction codes along with any suffix codes used by this application.
 - 2. Identify and document the major output items produced by this application (i.e. computer generated reports, checks, tickets, etc.). Include in this documentation all sensitive output items generated, if any. The listing of output can be obtained from Express Delivery.
 - 3. Identify and document any end user products (i.e. SAS, DYL280, FOCUS, Lotus, etc.) used by the department in conjunction with this application. Include the purpose. downloading / uploading, input of data, modification of data, output reports and files and distribution of the output generated by this process.

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- E. Select specific controls to be tested and modify the audit program accordingly. Submit the modified program to the Manager of IS Audit for approval.

IV. SYSTEM AND APPLICATION SECURITY:

Note: Detailed reviews of systems security (ACF2, TSS, IMS, CICS) are performed separately, on an established cycle. During this review, system software fieldwork may be limited to access controls over files within this specific application. You should review these procedures with the audit manager or supervisor prior to starting your testwork.

- A. Identify the security software used to limit access to this application's files, databases and datasets. Be sure to include the following:

Obtain a listing of all files, databases and datasets used by this application. Using the ACF2 batch or on-line commands generate a report of the ACF2 Access Rules and Login ID's. Review the ACF2 access rules to determine if the access allowed (i.e. read, write, allocate, execute, remote) is appropriate for the associate's job responsibilities.

- B. Identify the security software used to limit access to this applications on-line screen access.
 1. Obtain a listing of the transaction groups for on-line access controlled by IMS. Review this access to determine if the access allowed (i.e. inquiry, entry, update) is appropriate for the associate's job responsibilities.
 2. For application level security other than IMS, determine if access restriction controls are utilized to limit the possibility of unauthorized access (such as, passwords, restriction on access attempts, force password changes, etc.).

- C. Identify and document the administrative controls used to ensure that appropriate access to the application is maintained. If the administrative functions are centralized see the Audit Manager to determine if this step can be passed. Be sure to include the following:

Document the process for authorizing new users, authorizing and updating user access capabilities, and deleting access when it is no longer needed. Determine if these procedures are adequate to ensure only authorized associates are given access to this application.

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V. BACK-UP AND RECOVERY:

- A. Determine if a disaster recovery plan has been created. Review that plan to determine if this specific application has been included. Particularly note the criticality ranking of this application in relation to its importance with the business. Inquire as to whether or not this application has been tested. (NOTE: Review the last disaster recovery audit before performing this step.)
- B. Select a sample of key datasets identified above (SYSTEM AND APPLICATION SECURITY AUDIT STEP A) and perform the following tests:
 - 1. Determine that the appropriate levels of backup exist for the key datasets selected. If necessary consult with the appropriate system and user associates to determine which files, databases and datasets are the most critical.
 - 2. Determine if these datasets are cycled off-site. Evaluate the reasonableness of the off-site cycling frequency. This can be accomplished by using TSO to find the VOLSER number and the off-site back-up cartridges, then review the TMS Report 49 to confirm the cartridge locations. For back-ups performed by FDRABR review the Archive CARDLIB. For databases, obtain the *Listing of Recon Report* from DBSG and review the image copy and disaster image copies for off-site storage.

VI. CHANGE CONTROL PROCEDURES:

- A. Select a sample of procedures and programs and perform the following steps. The sample should be taken from copies of programs acquired by the Audit Department during the audit year. These programs will be found in dataset \$\$AUDB.AUDIT.PROGRAMS. If not available, select a sample from Panvalet, be sure to select programs that were modified during the past 12 months.
 - 1. For programs selected from \$\$AUDB.AUDIT.PROGRAMS, compare the old versions of the programs and procedures against the most current versions using COMPARX or other available tools. All changes should be analyzed to ensure they were proper (determine if inappropriate changes were made) and meet the documentation standards.

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2. Obtain and review the original program change request form. Ensure the form is properly approved.
3. Obtain the Catalog Request for Services documents for the selected programs and review them for proper authorization and disposition.
4. Trace the program modifications through the process noting the following:
 - Last update in Panvalet
 - Current Panvalet lock
 - Project Leader / Manager approval
 - Production Acceptance approval

B. Review and evaluate the existing user manuals for this application. Ensure that they are up to date regarding any program or system modifications.

VII. COMMUNICATIONS CONTROLS:

Note: A complete review of communication controls will be performed separately for each system installation. During this review, fieldwork may be limited to data transmissions relative to this specific application.

A. Document the communications environment relative to this application. Include in this documentation the type of information being transmitted and any security features utilized (such as, encryption, authentication checks, call-back features, etc.). Test the controls in place.

B. Review the adequacy of the balancing controls which ensure the completeness of transmitted data.

VIII. INPUT CONTROLS:

Note: Before completing this section of the audit program, determine if any of the steps have been performed by the financial auditors within the past year. If so, consult with IS Audit Management to determine which, if any, of these steps should be performed.

ON-LINE PROCEDURES

From the description of the on-line system obtained during the FAMILIARIZATION PHASE, document, review and test the procedures.

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For this review the following procedures were selected:

Planning Purchase Order
 Create Partial Keytrol
 Keytrol Deletion
 Create Regular Headers
 Acknowledged Lay-up Distribution
 Store Manifest

- A. Document and review the transaction entry procedures. Include the following:
1. Determine who has the capability to enter the transactions
 2. Determine if source documents are being retained for an adequate period of time
 3. Evaluate the controls to ensure that all transactions are properly entered.
- B. Document and test the data validation and editing routines used to determine the acceptability of input.
1. Compare the editing routines to the screen information and determine if all appropriate fields have proper edit routines. Speak to one or two users to determine if any inappropriate data is entering the system.
 2. To test the edit routines perform one or a combination of the following:
 - Have the user enter data into the on-line screen that contains errors. Notice if the edit forces the user to enter the correct data and record any messages that appear on the screen. (Print out the screen if possible to evidence findings.)
 - Using SAS or ACL examine the files to determine if incorrect data entered the system and perform any necessary research to determine the cause.
- C. Select a sample of transactions for tracing through the system. Be sure to trace rejected entries to edit reports to ensure that they were accepted by the system. All transactions should also be reviewed for proper authorization. Be sure to include the following tests:

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1. Using DYL280, SAS or ACL generate a list of deleted keytrols from the Keytrol Transaction Database (LT2). Determine the reason for the deletions and ensure that appropriate procedures were followed.
2. Using DYL280, SAS or ACL generate a list of the Keytrol Transaction Database (LT2). Obtain the DC Receiving Appointment Sheets for two to three days and trace all entries to the database, note any exceptions.
3. Using DYL280, SAS or ACL generate a list of headers from the Header Database (LR1). Obtain copies of the Lay-up Logs and Hanging P.O. Control Logs and the MCS Statistics Report and trace the Lay-up Logs and Hanging P.O. Control Logs to the list generated by the Audit Department and the *MCS Statistics Report*, note any exceptions.
4. Using DYL280, SAS or ACL generate list of store manifests from the Manifest Database. Obtain copies of the Accuracy Control Longhaul Run Sheets and Driver Run Sheets and trace the entries to the list generated by the Audit Department, note any exceptions.

BATCH PROCEDURES

From the description of the batch system obtained during the FAMILIARIZATION PHASE, document, review and test the procedures. For this review the following procedures were selected:

Monetary Adjustments

- D. Document the transaction (batch) procedures, determine who has the capability to enter the transactions, determine if source documents are being retained for an adequate period of time and evaluate the controls to ensure that all transactions are properly entered.
- E. Document and test the data validation and editing routines used to determine the acceptability of input.
 1. Compare the editing routines to the available documentation and determine if all appropriate fields have proper edit routines. Speak to one or two users to determine if any inappropriate data is entering the system.

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2. Using SAS or ACL examine the files to determine if incorrect data entered the system and perform the necessary research to determine the cause.

F. Select a sample of transactions (batches) for tracing through the system. Be sure to trace rejected entries to edit reports to ensure that they were accepted by the system. All transactions should also be reviewed for proper authorization. Be sure to include the following tests:

1. Obtain two or three batch sheets for miscellaneous maintenance (Transactions 858, 874, 879). Trace all entries to the *Accounting Recap Sheet* and the *Stock Ledger Unit Control Generated Input Transaction Analysis Report*.
2. Obtain three to five price adjustment / reticket entries and trace these items to the *Accounting Recap Sheet* and the *Stock Ledger Unit Control Generated Input Transaction Analysis Report*.
3. Obtain one or two batches for miscellaneous maintenance to cost and retail for goods received at the DC. Trace all entries to the *Accounting Recap Sheet* and the *Stock Ledger Unit Control Generated Input Transaction Analysis Report*.

G. Document and evaluate the procedures for re-entering rejected transactions. Ensure that all re-entered transactions are subject to the same edit routines and controls as original input items. Ensure that rejected entries are re-entered on a timely basis.

Obtain the *Record Processing Report* and review for rejected items. Trace all rejects to the *Control File Maintenance Error Report*. For soft rejects determine if they are being reviewed. Hard rejects should be traced to the appropriate batch sheets and reports to ensure entry into the system within a reasonable time period.

IX. AUTOMATED INTERFACES:

From the description of the system interfaces obtained during the FAMILIARIZATION PHASE, document, review and test the procedures. For this review the following interfaces were selected:

Accounts Payable
Stock Ledger

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Unit Control

NOTE: The primary balancing of the stock ledger and unit control totals will be performed during the **OUTPUT CONTROLS**, Balancing Procedures.

- A. Obtain from the Accounts Payable Department the Class J Report for PROC PL.MC.LMC6151D. This PROC contains all 858 Transactions passed over to the Accounts Payable System. Within this PROC Program KAP100-A contains the totals passed to Accounts Payable, compare these totals to the control totals found on the *Records Processing Totals Report*, stock ledger net cost and net retail totals. Note exceptions.

Verify that Accounts Payable has procedures for reconciling variances.

- B. Document the controls over the Stock Ledger and Unit Control interfaces. Using DOCUTEXT list the interface files. Obtain access to the files and databases, using DYL280, SAS, or ACL recalculate the totals and agree them to supporting documentation. Determine if reconciliation's are performed and document and test those procedures.

X. OUTPUT CONTROLS:

BALANCING PROCEDURES

- A. Document and review the procedures for run to run balancing. Select one day to balance. Obtain the Production Control Sheets, appropriate Class J Reports, Balancing Instructions, Unit Control Input Transaction Totals and the *Record Processing Totals Report*. Trace the totals through the system to ensure that all of the transactions were processed.
- B. Obtain the following extracts and reports, to be used in steps C and D, to reconcile MCS to Unit Control and the Stock Ledger.

NOTE: It is important to coordinate all datasets, IMS DB extracts and reports in order to reconcile the daily activity. Image copies of the IMS database file are produced every evening at 3:30 A.M. The Stock Ledger file is a cumulative file for the week. The Unit Control and Suspended Transactions files are daily files.

1. Use DYL280 to generate extracts from the IMS Databases. These programs are located in library \$SAUDB.SOURCE.PROGRAMS.

LA1 - Acknowledged Distro Database

LD1 - Layup Transactions Database

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LO1 - Over/Short Database
 LR1 - Header Database
 LT1 - 858 Transactions

2. Use IDCAMS (\$\$AUDB.SOURCE.JCL) to generate copies of the following datasets.

PL.MC.LMC6151D (+1)	- Implied Transaction Billing File
PL.MC.LMC8551U (+1)	- 878 Transaction File
PL.LB00811U	- Stock Ledger Transactions
PL.LB00401D	- Unit Control Transactions
PL.LB00507D	- Suspended AD date Merchandise

3. Use Express Delivery to obtain copies of the following MCS reports. The *Records Processing Totals Report* contains the totals passed to Unit Control and the Stock Ledger.

<i>Records Processing Totals Report</i>	- LB0050-C
<i>Control File Maintenance Error Report</i>	- LB0050-A
<i>Headers Not Verified By Planning</i>	- LMC820-B

- C. From the information obtained in step B reconcile the 858 Header Receipts to the Records Processing Totals Report:

1. Add the daily 858 and 85Q (reversals) transactions from the extract of LB00401D (Unit Control). Compare the total number of transactions to the *Records Processing Totals Report* Input Transactions column. Note variances.
2. Add the daily 858 and 85Q (reversals) transactions from the extract of LB00811U (Stock Ledger). Compare the total number of transactions to the *Records Processing Totals Report* Stock Ledger Transactions and Units column. Note variances.

Calculate the difference between the 858 and 85Q transactions (dollar amount (cost and retail). Compare the difference to the *Records Processing Totals Report* Stock Ledger Net Cost and Retail Dollars column. Note variances.

3. Subtract the difference between the LB00811U (Stock Ledger) and the LB00411D (Unit Control) extracts for 858 transactions. Reconcile the difference to the over/short database extract (overages) and rejected transactions.

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4. Subtract the difference between the LB00811U (Stock Ledger) and the LB00411D (Unit Control) extracts for 85Q transactions. Reconcile the difference to the over/short database extract (shortages).

D. From the information obtained in step B reconcile the 878 Shipments to Stores to the *Records Processing Totals Report*:

1. Trace the daily 878 transactions from file LMC615 to the *Records Transaction Report*, Shipments to Stores column. In order to obtain the 878 transaction for the day, add the non-ad date merchandise to the ad date merchandise. Note any variances. If any adjustments have been performed take them into consideration when balancing.
2. Subtract the daily 878 transactions from the LMC615 to the daily Unit Control records LB00401D file. This adjusted figure should reconcile to the *Records Processing Totals Report*, Previously Suspended Shipments column. Note variances. Remember to add the ad date merchandise to the non-ad date merchandise to obtain the total 878 transactions for the day. If any adjustments have been performed take them into consideration when balancing.
3. Reconcile the Stock Ledger totals to the *Records Processing Totals Report*, Stock Ledger Transactions, Units, Net Cost and Retail columns. In order to reconcile you must add the non ad date merchandise to the ad date merchandise to obtain the total 878 transactions for the day. Once this figure has been obtained trace to the report. Note variances.

OUTPUT REPORTS

E. Determine if the reports generated by this application are actually used. From the list of the output items produced that was obtained during the FAMILIARIZATION PHASE, review the TECH.DOCUTEXT.USRTXT printout and determine where in the process the reports are printed, and from Express Delivery who receives them. Interview the sources, determine which reports are not used, determine if these reports are necessary for the proper monitoring of the system and note comments.

XI. PROCESSING CONTROLS:

SYSTEM GENERATED DATA - IMPLIED BILLING

A Document and review the controls over system generated data. Test the controls to ensure the accuracy and completeness of the data.

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1. Obtain access to the LA1 (Acknowledge Distro Database) and run a DYL280 program to extract the daily distributions. Use ACL on the DYL280 file created. Compare the Pack Date to the Bill Date to ensure that all billing was performed within the prescribed billing delay period (usually six days). Document all exceptions.
2. From the Suspended Shipments file LB00507D, review ad date merchandise to ensure that the merchandise was billed on the ad date. Review the Unit Control File LB00401D and the Stock Ledger File LB00811U to ensure that the merchandise was properly recorded as billed on the ad date. Document all exceptions.

XII. AUDIT CLOSING/WORKPAPER CLEAN-UP:

- A. Complete workpapers as needed.
- B. Finalize exception summary sheets.
- C. Prepare report draft.
- D. Submit workpapers and report draft for review.
- E. Schedule and conduct draft meeting.
- F. Make necessary adjustment to the audit report.
- G. Submit workpapers and audit report for final review.
- H. Issue final audit report.
- I. Update the permanent binder as applicable.