

**DEPARTMENT CONTROL REVIEW – CASH DISBURSEMENTS**  
**[DEPARTMENT/AGENCY]**  
**AUDIT PROGRAM**  
Year Ended \_\_\_\_\_

W/P Ref.	Performed By
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REVIEW OBJECTIVES:		
<p>Determine whether internal controls are in place and operating effectively to ensure:</p> <ul style="list-style-type: none"> <li>▪ Cash disbursements are accurate, valid (adequately supported), processed timely, and properly recorded</li> <li>▪ Cash disbursements are properly authorized and processed in compliance with management directives</li> <li>▪ Assets are properly safeguarded (restricted access to critical asset control forms, critical records, transaction processing areas, etc.)</li> </ul> <p><i>Note: For purposes of this review, cash disbursements are defined as cash, check, and wire disbursements.</i></p>		
A. REPORT SECTION		
<ol style="list-style-type: none"> <li>1. <b>FINAL REPORT</b> Prepare a final report. Include auditee responses to the audit findings and recommendations in the final report. Also attach the signed copy of the responses when distributing the final report. <b>Be sure to have final report and responses proof-read prior to distribution.</b></li> <li>2. <b>COMMENT ON MANAGEMENT REPOSSES</b> Review responses received from dept./agency management. Prepare a w/p discussing the appropriateness of management’s responses to the recommendations contained in the draft report.</li> <li>3. <b>EXIT DRAFT REPORT</b> Prepare an exit draft report. If the exit draft report needs to be re-submitted with revisions to the auditee, include a copy of the revised exit draft report.</li> <li>4. <b>INITIAL &amp; REFERENCE DRAFT REPORT</b> Prepare initial draft of the report. Cross reference findings to work papers.</li> </ol>		
B. ADMINISTRATION SECTION		
<ol style="list-style-type: none"> <li>1. <b>JOB ASSIGNMENT SHEET</b> Complete the assignment sheet and budget information on Audit Docket upon opening of assignment. Update Audit Docket weekly to reflect current audit status including milestones.</li> <li>2. <b>TIME/BUDGET MONITORING</b> Prepare a time/budget summary to monitor fieldwork progress.</li> <li>3. <b>BUDGET REVISIONS</b> If necessary, prepare a budget revision. The need for budget revisions (hours and completion date) should be identified and discussed with the Manager <b>as soon as possible</b> in the audit process.</li> <li>4. <b>QUALITY ASSURANCE</b> <ol style="list-style-type: none"> <li>1. Complete the Audit Planning Checklist after the final scope has been determined.</li> <li>2. Complete the Audit Program checklist after the final audit program has been written.</li> <li>3. Complete the Audit Workpaper Checklist at the end of the audit.</li> <li>4. Complete the Audit Closing Procedures Checklist after the final report has been issued.</li> </ol> </li> </ol>		

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-------------	-----------------

<b>C. WRAP-UP MEMO</b>		
<p>Prepare a Wrap-Up Memo. Include comments in the wrap-up memo as encountered during the audit including:</p> <ul style="list-style-type: none"> <li>• Future program and/or approach changes</li> <li>• Comments on the audit scope</li> <li>• Other comments of future benefit</li> </ul>		
<b>D. AUDIT PROGRAM</b>		
<p>Prepare the audit program. Obtain Manager approval of the draft audit program before the related work begins, or as soon as possible thereafter. Revise and replace the program as necessary throughout fieldwork.</p>		
<b>E. FINDINGS</b>		
<p>1. <b>FINDING SUMMARY</b> Use a control sheet to summarize abstract topics and dispositions. Findings should be referenced to the source workpaper.</p> <p>2. <b>FINDING ABSTRACTS</b> Prepare finding abstracts of potential audit findings. Ensure abstracts adequately develop the finding and include the following elements: Condition, Cause, Criteria, Effect, Recommendation, Discussion with the auditee, and Disposition.</p>		
<b>F. PLANNING/CORRESPONDENCE</b>		
<p>1. <b>PRE-AUDIT MEETING</b> Conduct a pre-audit meeting with the Manager, In-Charge, and Audit Staff. Discuss audit goals, approach, scope, CPA qualifying time, timing, etc.</p> <p>2. <b>ENTRANCE LETTER</b> Send an entrance letter signed by the Director of Internal Audit announcing our intent to conduct an audit and request or confirm an entrance conference. Ask the contact person to provide the names of individuals who should be copied (cc'd) on the letter.</p> <p>3. <b>ENTRANCE CONFERENCE</b> Conduct an entrance conference to discuss proposed audit scope, timing of engagement, auditee assistance required, office hours, auditor workspace, etc. Inquire if mgmt. has any concerns or issues we should consider during the audit, and document the disposition of each concern/issue. Obtain and review an organization chart, Business Plan, Annual Budget, and Internet website prior to the entrance conference, if possible. (See step <b>G-2</b>)</p> <p>4. <b>EXIT MEETING</b> Conduct an exit meeting with the auditee to discuss exit draft audit report. Include a copy of the draft report in the Report/Correspondence File.</p>		

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-------------	-----------------

F. PLANNING/CORRESPONDENCE, Cont.		
<p>6. <b>OTHER CORRESPONDENCE</b>            Document all other pertinent communications relating to the audit.            NOTE: Copies of all significant correspondence to/from the Department Head and the IAD Director should also be placed in the Correspondence folder on the server.</p>		
G. BACKGROUND/SURVEY		
<p>OBJECTIVE: Gain general knowledge of the Department/Agency's organization related to the cash disbursement process, to be used in determining the scope of this assignment.</p> <p>1. <b>LIST OF CONTACTS</b>            Prepare a listing of audit contacts for this review.</p> <p>2. <b>BUSINESS ACTIVITIES</b>            A. Gain an understanding of the structure of the auditee's organization related to the cash disbursement process. Information can be obtained through interviews with auditee management and review of pertinent information:</p> <ul style="list-style-type: none"> <li>• Identify types of cash disbursements [e.g. purchases (supplies, equipment, etc.), payroll, revolving funds, trust funds, program uses (welfare assistance, etc.)]</li> <li>• Identify methods of cash disbursement for the types of disbursements made [e.g. check, cash, wire; processed by dept./agency or by A-C; etc.]</li> <li>• Total dollar value of cash disbursements and transaction volume by disbursement type</li> <li>• General Ledger accounts used by the auditee</li> <li>• Cash disbursing locations and activity levels by location</li> <li>• Organization Chart</li> <li>• Current Business Plan</li> <li>• Current Annual Budget (number of employees and department budget obtain from the Internal Audit Library)</li> <li>• Dept./Agency Internet/Intranet Website</li> <li>• Policies and procedures covering disbursing activities.</li> </ul> <p>B. Perform an <u>analytical review</u> of cash disbursements for at least two years prior to the period under review. Investigate any significant variances.</p> <p>3. <b>PRIOR REPORTS</b>            Review prior audit reports of the auditee including:</p> <ul style="list-style-type: none"> <li>▪ IAD audit reports, including cash losses</li> <li>▪ Single Audit and CAFR</li> <li>▪ Grant Audits</li> <li>▪ Audits by other funding organizations (State, Fed, etc.)</li> </ul> <p>Document relevant findings and note the impact on this audit.</p>		

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G. BACKGROUND/SURVEY, Cont.		
<p>4. <b>PRIOR WRAP-UP</b> Review wrap-up memo(s) from prior IAD working paper files. Note relevant items.</p> <p>5. <b>CORRESPONDENCE &amp; PERMANENT FILES</b> Review the IAD correspondence and permanent files for the auditee (dept./agency). Note any items that may impact this audit.</p>		
H. SCOPE		
<p>Document the scope established for this assignment and the areas to be included in the scope of the audit. Include the basis for the determination of the scope. Obtain approval from the Audit Manager <b>before</b> continuing.</p>		

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<b>I. INTERNAL CONTROLS</b>		
<p>OBJECTIVE: Obtain an understanding of the dept./agencies controls over disbursing. Identify key controls and form a preliminary assessment of controls. Document a testing approach to determine the effectiveness of key controls.</p> <ol style="list-style-type: none"> <li>1. <b>OBTAIN AN UNDERSTANDING OF THE DISBURSEMENT PROCESS &amp; CONTROLS</b>  Perform a <b>walk-through</b> of the cash disbursement process with the appropriate supervisor/manager. <ul style="list-style-type: none"> <li>• Obtain a basic understanding of the internal controls.</li> <li>• Observe the controls and related documents.</li> <li>• Obtain photocopy samples of pertinent documents that may be used in testing.</li> <li>• Document your understanding of pertinent information to be used in planning test procedures.</li> <li>• <b>Consider</b> having auditee review your process write-ups for accuracy and completeness.</li> </ul> </li> <li>2. <b>SEGREGATION OF DUTIES MATRIX</b>  Based on discussion with auditee management and observations made during the cash disbursing process walk-through, complete a Segregation of Duties Matrix.</li> <li>3. <b>INTERNAL CONTROL QUESTIONNAIRE</b>  Based on discussion with auditee management and observations made during the cash disbursing process walk-through, complete an internal control questionnaire (ICQ). Document how your evidence was obtained on the ICQ (inquiry, observation, limited testing).</li> <li>4. <b>PRELIMINARY ASSESSMENT OF CONTROLS</b>  Based on the information obtained so far, identify key cash disbursing controls and form a preliminary assessment of controls.</li> <li>5. <b>TESTING APPROACH</b>  Based on the preliminary assessment of controls formed at step 4, develop and document a detailed testing approach for this assignment. Obtain approval from the Audit Manager before continuing.</li> </ol>		

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<b>I. CASH DISBURSEMENT TESTING</b>		
<p>OBEJCTIVE: Determine whether key cash disbursing controls, identified in Step H, are in place and working effectively.</p> <p>1. <b>SUMMARY</b>  Document the work performed and conclude on the objective for this section.</p> <p><b>Sample Tests:</b></p> <p>2. <b>CASH DISBURSEMENT TESTING: RECEIPT, AUTHORIZATION &amp; RECORDING (GOODS &amp; SERVICES)</b>  Objectives:</p> <ul style="list-style-type: none"> <li>▪ Determine whether controls over receipt of goods or services (<u>accountability</u>) and cash disbursement <u>authorization</u> are in place and operating effectively.</li> <li>▪ Determine whether controls over the proper <u>recording</u> of cash disbursements are in place and operating effectively.</li> </ul> <p>Judgementally select a sample of _____ cash disbursements for goods and/or services processed during the audit period. Perform the following tests:</p> <ol style="list-style-type: none"> <li>a) Verify the person who received the goods/services signed (or initialed) the receiving document (evidence of receipt).</li> <li>b) Verify the agreement of supporting documentation (purchase order, receiver, invoice, disbursement request, check copy) as to details: e.g. quantities, description, payee, dates, dollar amounts, etc.</li> <li>c) Verify that the invoice and/or supporting documents were reviewed for accuracy (extensions, additions, discounts, &amp; pricing) prior to payment (e.g. as evidenced by initials/signature of reviewer).</li> <li>d) Recalculate invoices/supporting documents to determine effectiveness of review procedures.</li> <li>e) Review account coding for reasonableness to determine effectiveness of review procedures.</li> <li>f) Verify payment was made from original source documents or if payment was made from a photocopy that an explanation was documented.</li> <li>g) Verify that supporting documents were appropriately canceled (e.g. marked “canceled” or “paid”) to prevent duplicate payments and cross-referenced to check number.</li> <li>h) Verify that proper authorization was documented in writing by signature of an individual on the <u>Authorized Signature List</u>.</li> <li>i) Verify that an individual on the <u>Bank Signature List</u> signed the check.</li> <li>j) Verify that appropriate countersignature was obtained if the check was in excess of a specified amount.</li> <li>k) Verify that the individual who signed the check was not the same person who initiated the purchase, received the purchase, authorized the disbursement, prepared the check, or recorded the transaction.</li> <li>l) Verify that the check was dated subsequent to receipt of goods/services and disbursement authorization.</li> <li>m) Verify that the amount recorded on the Subsidiary Records and/or General Ledger agrees with invoice and check amounts.</li> </ol>		
<b>I. DISBURSEMENT TESTING, Cont.</b>		

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**3. SAFEGUARDING**

Objective: Determine whether controls over safeguarding of related assets are in place and operating effectively.

- a) Observe that unused check stock is located in a secured area with restricted access.
- b) Review the check register and relevant documentation to determine that 1) checks are issued in numerical order, and 2) unused checks are voided to prevent use.
- c) Perform a surprise physical inventory of unused check stock. Compare results of inventory to the check register to ensure all unused check stock is accounted for.
- d) Verify that signature stamps and/or signature plates are locked in a secure location with access restricted to employees that require them for the performance of their duties (e.g. not accessible to individuals who perform accounts payable duties or prepare checks).

**4. ADEQUACY OF MANAGEMENT OVERSIGHT**

Objective: Ensure there is adequate management oversight/approval for following up and resolving exceptions, and for adjustments, voids, returns, and credit transactions involving cash disbursements.

- a) Evaluate procedures for making adjustments (voids, returns, credits) to determine if there is proper review/approval by management.
- b) Evaluate procedures that specify methods for following-up and resolving exceptions. Determine if there is a customer/vendor complaint log, and review types of complaints noted and if there was timely resolution of the complaints.
- c) Review any exceptions lists prepared (system or manual – e.g. list of open vouchers scheduled for payment but requiring corrections before a check can be printed) to determine the types of exceptions and if there is management review of the exception lists.

Develop and perform testing of items 4.a – 4.c above as deemed necessary to evaluate the adequacy of management oversight.

**5. ANALYTICAL REVIEW**

Perform analytical review of dept./agency expenditures for the past 2 years. Obtain explanations for significant fluctuations. Review explanations for reasonableness.