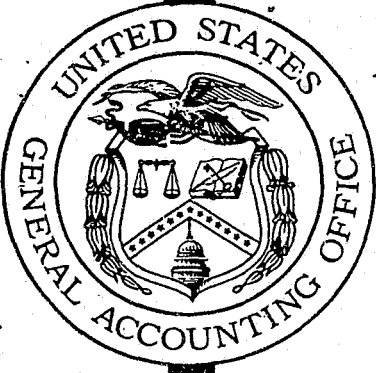


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GUIDELINES
FOR
FINANCIAL AND COMPLIANCE
AUDITS OF
FEDERALLY ASSISTED PROGRAMS

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UNITED STATES
GENERAL ACCOUNTING OFFICE

NCJ 223

FEBRUARY 1980

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ACQUISITIONS

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FOREWORD

This guide is for use in auditing federally assisted programs. It replaces almost a hundred individual program guides that were previously in use. It is issued as part of an overall program of improving government accountability.

The 1960s saw a substantial increase both in the number and dollar amounts of Federal assistance programs. These programs were aimed at improving Americans' daily lives. Major steps were taken to broaden elementary, secondary, and higher educational opportunities; to promote development in economically depressed areas; to help finance health services and medical care for the indigent; to launch a war on poverty; and to attempt a comprehensive physical, social and economic program to transform slum and blight-ridden cities into model neighborhoods.

During the 1970s, the establishment of new grant-in-aid programs slowed considerably. Also, legislation was enacted consolidating a number of existing categorical programs into broader purpose block programs. However, during this period, the dollar amount of Federal assistance continued to grow.

Today 52 Federal agencies administer nearly 1,100 Federal assistance programs. About half of these programs account for almost \$90 billion that goes to the governments of all 50 States, 3,000 counties and nearly 90,000 local jurisdictions. In addition, numerous other entities, such as hospitals, universities, and nonprofit organizations benefit from this funding. Most recipients receive funds from several Federal agencies or under several federally assisted programs.

This increase in Federal programs brought with it an increased demand for full accountability by those entrusted with the responsibility for administering the programs. Auditing is an integral element of this accountability, and each agency that provides Federal money is responsible for ensuring that appropriate audits are made of the recipient's records or activities. These audits are performed by Federal auditors, State and local auditors, or by certified public accountants.

A major problem in auditing Federal assistance programs is that the agencies usually restrict their audits to recipient records and financial controls relating to their own programs without concern for other Federal programs administered by the recipient. They do not completely evaluate the recipient's financial controls and pay little attention to

how a recipient's management practices affect other agencies' programs. This approach to auditing Federal assistance programs provides little assurance that Federal funds are properly safeguarded and causes duplication of effort.

Ideally, auditing of Federal assistance programs should be accomplished during an organization-wide audit of the recipient's financial operations. Such an audit should assure that the organization's financial records and controls are adequate and should test to determine whether it is in conformance with significant compliance requirements that can have a material effect upon its financial position.

One of the barriers which has inhibited the accomplishment of an organization-wide audit is the multiplicity of audit guides which Federal agencies have prepared for use in auditing their federally assisted programs. In addition, the absence of a standard audit guide which could be used during an organization-wide audit has been an inhibiting factor. For these reasons, the General Accounting Office, the Office of Management and Budget and the Intergovernmental Audit Forum have developed this guide to be used in a comprehensive, organization-wide financial and compliance audit of recipients of Federal assistance programs.

Lucas B. Steate
Comptroller General
of the United States

James J. McIntyre, Jr.
Director
Office of Management and Budget

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		AICPA	American Institute of Certified Public Accountants
		EDP	electronic data processing
		OMB	Office of Management and Budget

CHAPTER 1

INTRODUCTION

Federal financial assistance to State and local governmental and other non-Federal domestic organizations has increased from \$3 billion in fiscal year 1955 to \$90 billion for fiscal year 1980. This assistance is provided through a network of over 1,100 programs administered by 52 Federal departments, agencies, and commissions. The programs are carried out by 50 States, 3,000 counties, nearly 90,000 local governments, and innumerable nongovernmental organizations.

When State or local governments accept funds under federally assisted programs, they assume the responsibility of carrying out the programs efficiently, economically, and effectively. This includes the responsibility of auditing the programs with the same thoroughness that State and local programs are audited. Attachment P to Office of Management and Budget (OMB) Circular A-102 (included as app. III to this guide) calls for an organizationwide audit of grantee financial operations. The audits must include, at a minimum, an examination of the systems of internal control systems established to ensure compliance with laws and regulations affecting the expenditure of Federal funds, financial transactions and accounts, and financial statements and reports of recipient organizations.

Similarly, Federal agencies which fund such programs are also responsible for auditing them. To avoid duplicate audits, the Office of Management and Budget established a Governmentwide policy requiring Federal agencies to rely on audits made by non-Federal auditors to the maximum extent practicable. OMB Circular A-73 provides that:

"Reports prepared by non-Federal auditors will be used in lieu of Federal audits if the reports and supporting workpapers are available for review by the Federal agencies, if testing by Federal agencies indicates the audits are performed in accordance with generally accepted auditing standards (including the audit standards issued by the Comptroller General), and if the audits otherwise meet the requirements of the Federal agencies."

To maximize use of State and local audits, the Federal funding agencies usually provide guidelines on the areas to be covered in the audit of a federally assisted program. Because of the divergence of audit approaches contained in the

guidelines issued by the various departments and agencies, several State and local auditors have experienced difficulty in responding to the audit requirements of the Federal agencies. Furthermore, many grantee organizations receive funds from several Federal agencies and under a multitude of programs. Thus, the auditor may find himself auditing several federally assisted programs within an organization and being required to use a different audit guide for each program.

This audit guide is to provide a uniform audit approach and uniform documentation procedures for financial and compliance audits of organizations receiving funds from several Federal agencies or under several federally assisted programs so that the needs of each Federal, State, and local funding agency for audited financial information are satisfied. This will conserve staffing, promote efficiency, and minimize the impact of audits on the auditee's operations.

This guide has been developed primarily for use in audits of State and local governmental organizations. It provides consistent audit practices and documentation procedures, which should increase the potential for coordination of audit efforts at all levels of government. However, it is also appropriate for audits of certain nongovernmental grantee organizations. It is to be used for audits whose scope is limited to financial operations, including compliance with laws and regulations materially affecting financial operation.

GENERAL COMMENTS

For beneficial audits of organizations receiving Federal funds, auditors must use generally accepted auditing standards.

AUDIT STANDARDS TO BE APPLIED

To serve the needs of Federal departments and agencies, financial examinations should be made in accordance with generally accepted auditing standards adopted by the American Institute of Certified Public Accountants (AICPA) and incorporated in "Standards for Audit of Governmental Organizations, Programs, Activities & Functions" issued by the Comptroller General in 1972.

If State and local government audits of federally assisted programs meet these standards, the Federal Government should be able to rely on them and thus eliminate the duplicate audit coverage that results when Federal, State, and local auditors independently audit programs and activities without regard to the needs of the other levels of government.

AUDIT PROCEDURES TO BE FOLLOWED

This guide includes mandatory audit objectives, illustrative audit procedures, and documentation guides for audits of general financial activities by the various types of grantees, such as State and local government agencies. The procedures are designed primarily for use in auditing grantee organizations administering multiple programs or activities, including one or more federally assisted programs. The auditor, in addition to this guide, may refer to publications by the AICPA and the Municipal Finance Officers Association, "Industry Audit Guide--Audits of State and Local Governmental Units" and "Governmental Accounting, Auditing, and Financial Reporting."

The material presented relates to the planning of an audit, documentation of audit procedures, the study of internal controls, and the effect of this study on other audit procedures.

AUDIT REPORT TO BE PREPARED

Auditors reporting on the financial statements of organizations administering federally assisted programs encounter transactions funded, in whole or in part, by the Federal Government. For example, an auditor engaged to do a financial

audit of the various funds of a county government would expect to encounter some transactions which involve Federal funds. Such transactions are, in most cases, subject to the same degree of audit scrutiny by the county's auditors as are county funds.

The audit report should contain the overall financial statements of the grantee organization and schedules identifying individual projects for each Federal and State agency. The audit report should also include a statement of scope, opinion, and compliance.

Scope

The scope of the audit should identify the period covered by the audit and the various grants and contracts under which the audited organization received Federal funds. It should include a statement that the examination was made in accordance with generally accepted auditing standards, including the audit standards issued by the Comptroller General.

Opinion

The report should contain an opinion on the financial statements of the organization, including the financial data and related audit results. If an unqualified opinion cannot be expressed, the nature of the qualification should be clearly presented. The auditor's opinion on the financial statements of the organization will satisfy the needs of the Federal funding agencies for audited information. The auditor need not provide a separate opinion on the individual Federal programs the organization operates.

Compliance

The report should contain a statement that the operations of the grantee are in conformance with the compliance requirements which could have a material effect on the financial position of the grantee. The report should indicate the compliance items tested, the nature of the tests performed, the extent of the tests, and the results.

Statements

The audit report should contain such detailed financial statements on the grantees' operations as the grantee prepares. Such statement might include the following.

--Balance sheet:
All funds
General fund

Federal grant fund
State grant fund
Other special revenue fund

- Analysis of changes in fund balance--general fund
- Statement of revenue--general fund
- Statement of appropriations, expenditures, and encumbrances--general fund
- Statement of cash receipts and disbursements:
 - Federal grant fund
 - State grant fund
 - Other special revenue fund
- Schedule of questioned costs

Examples of these statements are included as appendix II.

It is not expected that all of the statements be available for every audit engagement. However, they are presented to show how a comprehensive set of financial statements that cover all facets of a grantee's operation can be constructed to meet the needs of all users--grantees, grantors, and the public. As such, these statements serve as a guide for developing required financial statements for multiple-funded organizations.

There is no need to present all of the above listed statements (e.g., for grantees which administer a single Federal grant.) For those grantees it is suggested that the following be presented:

- Balance sheet.
- Statement of appropriations, expenditures, and encumbrances.
- Schedule of questioned costs.

CHAPTER 3

PLANNING THE AUDIT

MULTIPURPOSE AUDITS

Generally accepted auditing standards for fieldwork require that: "The work is to be adequately planned and assistants, if any, are to be properly supervised."

One of the objectives of Federal audit policy is to make one audit satisfy as many Federal and non-Federal needs as possible and practicable. Federal grants are administered in partnership with non-Federal organizations in which the grants represent all or a part of an organization's activities.

The audit approach described in this guide suggests procedures to be employed when one audit is to be made covering all activities, including Federal grant programs, within an audit universe, such as a State department of human resources. The approach presented would also be usable on audits of organizations administering a single audit grant program.

A multipurpose audit requires thorough preliminary planning to insure that audit work is adequately coordinated to achieve the desired results. Such preliminary planning requires that the auditor (1) survey the organization to determine the components of the audit universe by functional area, such as purchasing, payroll, and disbursing, and (2) design supplemental audit steps to test aspects of individual program transactions which may be selected in samples drawn from the total universe of the organization's transactions. Specific approaches to the study of internal control are discussed in a separate chapter.

PRELIMINARY PROCEDURES

Before starting the examination, the auditor should obtain and review key reference material. The types of material which are pertinent will vary, depending on the circumstances, but in general will include:

1. Financial reports issued during the period.
2. Charters, bylaws, incorporation documents, minutes of meetings of the board of trustees or directors, and bank account authorizations.
3. Audit reports issued within the past 2 years, including those prepared by internal or external auditors.

program included within the scope of the audit.

5. The approved budget for each program.
6. Copies of program instructions, agency regulations, and applicable circulars. (See app. IV for a list of Office of Management and Budget circulars.)
7. All major contracts, such as leases, employment agreements, and major purchase commitments, entered into by the organization.
8. The Government-wide cost allocation plan applicable to State and local governments and relevant negotiated indirect cost proposals and agreements (including indirect cost rates and data for educational and nonprofit organizations.)

The auditor should make copies or extracts of those documents he considers necessary for retention in the audit workpapers. Items of audit importance in the above documents should be investigated and documented in the working papers.

In some circumstances, such as audits where there is a large volume of individual grant awards, it may not be practicable or appropriate to review all grant award and budget documents before starting work. In situations of this type, the auditor may choose to:

1. Review grant agreement, approved budget, program instructions, and individual grant financial reports for several material grants (if any) during the preliminary phase of the audit before starting the internal control review.
2. Review the organization's practices and policies relative to administering the grants selected in item 1 above during the study of internal control systems.
3. Determine whether the grant administration practices and policies are applied to all grant programs.
4. Select representative transactions and review the grant award and related compliance requirements for individual grants and programs represented by the transactions.

AUDIT WORKPAPERS

The GAO standards for governmental auditing provide:

"Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations."

This standard places upon the auditor the responsibility for accumulating sufficient evidence to provide an appropriate factual basis for his opinions, conclusions, judgments, and recommendations.

Guidance pertaining to workpaper documentation is provided in the audit guide chapters dealing with the study of internal control and tests of account balances.

CHAPTER 5

COMPLIANCE WITH LEGAL

AND REGULATORY REQUIREMENTS

GAO's third examination and evaluation standard for governmental auditing is: "A review is to be made of compliance with legal and regulatory requirements." In governmental auditing, compliance with pertinent laws and regulations is particularly important because government organizations, functions, programs, or activities are subject to laws and have more specific rules and regulations than are usually applicable to private organizations.

The auditor is responsible for determining whether the organization, program, function, or activity under audit has complied with laws and regulations which may have a material effect on the grantee's financial position.

Thus, during the financial audit, the auditor is to test the transactions and operations of the audited organization, program, function, or activity, to determine whether that entity is in conformance with significant compliance requirements that can have a material effect upon the grantee's financial position. Specifically, the auditor should establish that the audited entity has not incurred important unrecorded liabilities--contingent or actual--through failure to comply with, or through violation of, pertinent laws and regulations. Three of the most important requirements are recipient eligibility, coverage of services, and matching requirements. If funds are used to provide services to ineligible recipients and/or to provide services not included in the grant award, or if matching requirements are not met, the total amount of the award may have to be returned to the grantor agency.

While these requirements may not cover all significant compliance requirements, they do include some of the most important ones and their verification at least would indicate that funds were used for their intended purpose and matching funds were provided. Other requirements that may be applicable include maintenance of effort, indirect cost rate determination and allocation, and cost principles. Eligibility and matching requirements for all Federal grants can be found in the "Catalog of Federal Domestic Assistance," which is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. The catalog is updated semiannually. Test procedures for auditing costs and expenses (direct and indirect) are included in this guide starting on page 32.

To assure that important unrecorded liabilities do not exist, the auditor should (1) ascertain the significant compliance requirements for each material grant, (2) determine that the grantee has established a system to ensure that those requirements are complied with, and (3) test individual transactions to determine whether the system is working as designed.

STUDY OF INTERNAL CONTROLGENERAL CONSIDERATIONS

The GAO standards for governmental auditing provide:

"An evaluation is to be made of the system of internal control to assess the extent it can be relied upon to ensure accurate information, to ensure compliance with law and regulations, and to provide for efficient and effective operations."

This standard makes the auditor responsible for determining how much reliance can be placed on the audited entity's internal controls to ensure accurate information, ensure compliance with applicable laws and regulations, promote efficiency and economy, and produce effective results. This review will help him determine the extent of detailed examination work that must be performed to achieve the objectives of the audit.

The study of internal control normally has two phases. The AICPA Statement on Auditing Standards No. 1, describes these phases as:

1. Review of the system, which "is primarily the process of obtaining information about the organization and the procedures prescribed and is intended to serve as the basis for tests of compliance and for evaluation of the system."
2. Tests of compliance, which are made "to provide reasonable assurance that the accounting control procedures are being applied as prescribed."

Effect of the method of data processing on the study

In studying internal control, the auditor must consider the method used for processing financial data. Using a computer for processing and recording financial data is widespread and continues to grow. Computer capabilities and applications can be generally categorized as:

1. Simple calculating and compiling operations which produce a hard-copy audit trail.

2. Those systems and applications where the hard copy does not indicate the internal processing that transpired within the machine.

In the later situation, the auditor must consider using tests and review procedures which go beyond traditional audit techniques. Accordingly, it is expected that auditors undertaking engagements in a sophisticated data processing environment will review the system of data processing and apply appropriate test procedures. However, the auditors must be adequately trained for such work.

The AICPA Statement on Auditing Standards No. 3 describes the impact of electronic data processing (EDP) on the auditor's study of internal control and provides general guidance for the study of internal control in an EDP environment.

Testing methods

In a multipurpose audit of an organization, one of the auditor's objectives is to limit detailed testing of the various programs and activities by reviewing tests of the organization's systems as a whole. It is recommended that the auditor, to draw objective conclusions on the functioning of the system as a whole, use statistical sampling procedures, where possible, in testing compliance with accounting control procedures. Sections 320A (.01 to .24) and 320B (.01 to .24) of the AICPA Statement on Auditing Standards No. 1 provide guidance for these procedures.

The foregoing does not preclude the use of judgmental sampling methods on multipurpose engagements but rather recognizes the potential value of statistical measurement on this type of audit.

REVIEW OF THE SYSTEM

During this phase of the study, it is necessary to determine first what controls are present and then make a preliminary evaluation as to the appropriateness of the controls. After completing the preliminary evaluation, the auditor is able to determine how much reliance will be placed on internal controls, subject to tests of transactions, to verify the effectiveness of controls.

It is recommended that the review of internal controls be documented by:

1. Either a written narrative or a flow chart describing the workings of the various accounting-system applications and such other information--types of reports

and reconciliations prepared and the frequency of preparation and authorization limits for various types of transactions--which the auditor may need to accumulate to test the various accounting-system applications.

2. The auditor's preliminary evaluation of internal controls. This should include reference to the system's strengths and weaknesses and the auditor's preliminary judgment on the system's potential effectiveness or ineffectiveness. The evaluation should also indicate those aspects of internal control on which the auditor intends to rely, subject to tests of compliance with the system, for limiting tests of account balances.

Regardless of the format used, the documentation of the review should at least indicate (1) the major operating procedures being followed, (2) key accounting documents processed by the system, (3) the flow of information from the initiation of the transaction through the posting of accounting records, (4) the separation of duties within the system's application, (5) the authorization limits for various transactions, such as limited purchase-order approval, and (6) the adequacy of the system for ensuring adherence to Federal cost principles.

A general purpose questionnaire to assist in the review of internal controls is provided as appendix I. The questionnaire is intended to serve as a reminder list to insure coverage of various aspects of internal controls. It does not cover qualitative aspects of controls. The auditor is expected to judge the adequacy of controls on the basis of his evaluations of the circumstances.

TESTS OF RECORDED TRANSACTIONS FOR COMPLIANCE WITH THE SYSTEM OF INTERNAL CONTROLS

The AICPA Statement on Auditing Standards No. 1 describes the rationale for tests of compliance with the system of internal control, as follows:

"The purpose of tests of compliance is to provide reasonable assurance that the accounting control procedures are being applied as prescribed. Such tests are necessary if the prescribed procedures are to be relied upon in determining the nature, timing, or extent of substantive tests of particular classes of transactions or balances, but are not necessary if the procedures are not to be relied upon for that purpose."

This section contains general guidelines covering the testing of accounting applications at grantee organizations. It should be noted that not all system applications will be present on each audit engagement. In addition, tests of system compliance may not be appropriate where the system is not intended to be relied on as a basis for limiting other audit procedures.

Documentation of recorded transaction tests

The audit workpapers should clearly show the work done in reviewing and evaluating the organization's system of internal control. The AICPA Statement on Auditing Standards No. 1 states that:

"Although the quantity, type, and content of working papers will vary with the circumstances, they generally would include or show * * * that the [organization's] system of internal control had been reviewed and evaluated in determining the extent of tests to which auditing procedures were restricted* * *."

The statement indicates that the factors which affect the auditor's judgment of the quantity, type, and content of workpapers include:

"(a) the nature of the auditor's report, (b) the nature of the financial statements, schedules, or other information upon which the auditor is reporting, (c) the nature and condition of the (organization's) records and internal controls, and (d) the needs in the particular circumstances for supervision and review of the work performed by any assistants."

The Federal Government's stated audit policy is to achieve the efficient use of audit resources through better coordinated audit efforts. The full implementation of this policy requires that the audit work have at least common reference points which can be looked at by all potential users when one audit is made to meet the varying needs of different groups. For audit workpapers, that reference point should be guidelines that have been agreed to for documenting audit tests.

Apply the following guidelines or documentation tests of transactions to audits of organizations administering federally assisted programs.

Transactions test objectives are related to the auditor's plans for relying on internal controls for limiting account balance tests: The objectives will vary from audit to audit, depending on the circumstances.

1. Describe transaction test objectives in terms of what the test is designed to establish as to the functioning of specific controls. Also describe types of possible errors that may be found in the test. For example, in describing objectives of an accounts payable test, the auditor would state the control features to be tested (e.g., invoice matching and independent check of extensions) and the types of possible errors (e.g., quantity on invoice does not agree with quantity on receiving report and extensions on invoice are incorrect).
2. Describe the universe for tests using judgmental or statistical sampling, including (a) the types of items in the universe, (b) the period over which the items were accumulated, (c) the size of the universe, (d) the activities or funds covered by the system, and (e) the similarity of items constituting the universe. For example, in a test of cash disbursements, the auditor could include a description having (a) checks drawn on the organization's bank account from July 1, 1973, through June 30, 1974, (b) the checks used during the period were 1,456 through 2,851, or 1,395 checks, (c) the cash disbursement system processed checks covering the organization's general fund and two Federal programs (describe the programs), and (d) the universe includes all checks drawn by the organization.
3. When employing statistical sampling, the workpapers should include a sampling plan containing the sample size, precision, confidence levels, and estimated error rates.
4. Describe the method of selecting the sample.
5. Record the test steps applied to sample transactions. A detailed audit program or annotations on audit test papers would serve this purpose.
6. Record the results of tests, including lists of errors and exceptions; followup actions; and, in the case of statistical tests, the results, including precision.

7. The final piece of documentation is the auditor's conclusions on the effect of test results on other auditing procedures (substantive tests) to be used in the balance of the audit.

The documentation guidelines provide a reference point for Federal auditors and non-Federal auditors. These guidelines do not deal with the form of workpapers but rather provide a broad methodology which should result in workpapers with common general characteristics.

ILLUSTRATIVE PROGRAMS FOR TESTS OF RECORDED TRANSACTIONS

Transaction test objectives are related to the auditor's plans for relying on aspects of internal controls to limit tests of account balances. If the auditor wishes to rely on various functions and aspects of internal controls, he should establish objectives to cover those functions and aspects.

The test procedures for the transaction tests vary, depending on the circumstances. For example, if the auditor plans little or no reliance on internal controls within a particular accounting application, then he will have to expand his testing of the transaction but perform little or no audit procedures during his study of the internal control system. There are other factors affecting the selection of audit procedures, documents, and records. The auditor must use his own judgment in determining test objectives and appropriate audit procedures.

Listed below are illustrative audit procedures and test objectives for tests of compliance with accounting system applications.

Cash receipts

Audit objectives

Test objectives of cash receipts are to establish that:

1. Cash which should have been received is, in fact, received.
2. Cash received is deposited promptly and intact.
3. Cash drawn by check or letter of credit, funded by the Federal Government, is not in excess of immediate requirements.

4. Cash receipts are accurately recorded in the accounting records.
5. The accounting records for cash receipts agree with bank records of receipts.

Illustrative test procedures

1. Review the cash receipts records and the general ledger cash accounts for unusual items, such as large amounts or entries from other than cash journals.
2. Test footings and crossfootings of the cash receipts records.
3. Compare remittance advices with the postings to cash receipts and receivable records.
4. Test for agreement of entries on bank statements with the daily cash receipts amounts contained in cash receipts records.
5. Test the posting of cash receipts' records to the general ledger cash account and receivable detail records.
6. If cash receipts for federally assisted programs are commingled with other cash, then test for the posting of credits to applicable fund control accounts.
7. Test the postings of undeposited cash receipts to receivable records.
8. Test the recording of miscellaneous receipts, such as the proceeds from sales of property and equipment.
9. Compute the average daily cashbook balance for funds drawn under Federal letters of credit or advance payments for several random months during the audited period.

Cash disbursements

Audit objectives

Test objectives for cash disbursements are to establish that:

1. Disbursements are authorized. This objective is achieved either as part of the cash disbursement test or as part of the accounts payable test, depending on whether transactions are controlled by a voucher register. If a voucher register is used to control accounts payables, then the objectives are achieved as part of the accounts payable list. If not, the objectives are achieved as part of cash disbursements.
2. The amount of the disbursement is proper.
3. Disbursements are properly recorded, i.e., correct payee, amount, date, and account distribution, in the accounting records.
4. Disbursements are adequately supported by documentation and made for the purposes intended.

Illustrative test procedures

General tests

1. Examine the cash disbursements journal for unusual items, such as large amounts and checks drawn to cash. Investigate items noted.
2. Test the footings and crossfootings of the cash disbursements journal.
3. Account for the numerical sequence of checks for a test period.
4. Test postings of cash disbursements from the cash disbursements journal to the general ledger, and if applicable, to the voucher register and subsidiary ledgers.
5. Test petty cash reimbursement vouchers for support and approval.

Test of sample disbursement transactions

For each item selected:

1. Test paid checks to the cash disbursements journal and to supporting documents and determine that payees, amounts, and dates agree.
2. Determine that documents in support of disbursements were canceled to prevent their reuse.

3. Test signatures on paid checks against a list of authorized signers.
4. Compare endorsements with indicated payees. Investigate any double endorsements.

Purchasing, receiving, and accounts payable

Audit objectives

The objectives of purchasing, receiving, and accounts payable tests are to establish that:

1. Purchases of goods and services were properly authorized.
2. Purchases were made in accordance with established policies and procedures.
3. Purchase transactions were properly recorded in the accounting records on the dates transactions were completed.
4. Charges to federally assisted programs arising from purchase transactions conform to (a) cost principles prescribed under pertinent Federal circulars, (b) the terms of the grant or loan documents, and (c) the established policies of the organization. ^{1/} (See app. IV for a list of circulars.)

Illustrative test procedures

Preface

1. The sample program presented below assumes that purchase transactions are recorded in a voucher register. If the organization is on a cash basis or controls payables through a payable or accrual listing prepared at period end only, the review of charges for goods and services can be done as part of the cash disbursements test.
2. To achieve objectives 2 and 4 above, relating to transactions incurred under federally assisted programs, the audit program must be sufficiently detailed to cover specific program criteria. The audit program should be referenced to applicable

^{1/}When there is a conflict, categories (a) and (b) take precedence over category (c).

Federal circulars which establish principles for determining allowable costs of the organization. In addition, the program should be modified to include applicable provisions of the grant or loan and agency regulations dealing with allowable costs.

Program steps

General tests

1. Review the general ledger accounts for accounts payable and accrued expense and the voucher register for unusual items or entries, such as large amounts. Investigate items noted.
2. Review files of unmatched invoices, receiving reports, purchase orders, and shipping documents, to determine whether such items are current.
3. Test the numerical sequence of purchase orders.
4. Test footings and crossfootings of the voucher register and trace postings to the general ledger and subsidiary ledgers.
5. Review indirect cost categories in the cost allocation plan against the cost categories for indirect cost on the trial balance.

Test of sample purchase transactions

For each purchase transaction sample item selected:

1. Test each purchase order against requisitions:
 - a. Inspect competitive bids to see if the amount of purchase meets the minimum requirements for this procedure.
 - b. When possible, verify prices using vendor catalogs or price lists.
2. Test each vendor invoice as follows:
 - a. Compare amounts and terms of invoice to purchase order.
 - b. Compare items and quantities listed on the invoice to receiving report or evidence of receipt of services.

- c. Trace items listed in the voucher register, such as amount, transaction date, distribution of charges, program charge code, to the invoice.
 - d. Test invoice footings and extensions.
3. For each sample item representing a charge to a federally assisted program:
- a. Determine whether expenditure is contemplated in approved budget.
 - b. Determine whether prior approval of the granting agency was obtained for those purchases subject to that requirement. (Refer to grant agreement and applicable Federal circular.)
 - c. Determine whether classification of direct or indirect charges is in accord with cost allocation plan or grant agreement.
 - d. Test the types of expenditures selected for sample against standards for selected items of cost set forth in applicable Federal circulars, agency regulations, or grant terms. List as exceptions those items not meeting the prescribed standards.

Payroll

Audit objectives

The objectives of the payroll tests are to establish that:

1. Employees shown on the payroll records are authorized and hired in accordance with the organization's administrative requirements.
2. Payrolls are accurately calculated on the basis of authorized rates of pay.
3. Payroll deductions are made in accordance with existing legal requirements and contractual agreements.
4. Payroll transactions are accurately recorded in the accounting records.
5. Employees charged to federally assisted programs are authorized by the approved budget.

6. Fringe benefit arrangements affecting Federal grant programs are consistently applied to all the organization's operations, including non-Federal activities.

Illustrative test procedures

General tests

1. Test footings and crossfootings of payroll registers and trace posting to the general ledger and subsidiary ledgers.
2. Compare payroll charges in the general ledger to budget categories and investigate discrepancies.
3. Witness the distribution of payroll checks on a surprise basis.
4. Review charges to the various categories of fringe benefits and determine whether the benefits:
 - a. Are authorized in the organization's personnel policies.
 - b. Are generally considered under the category of fringe benefits and not profit-sharing arrangements.

Test of sample payroll transactions

For each payroll sample item selected for test:

1. Trace hours paid to appropriate time records--clock cards and timesheets.
2. Review individual hiring record or employment contract and determine whether rate of pay is authorized.
3. Inspect authorization or approval for overtime payments.
4. Test deductions from pay for authorization.
5. Test payroll distribution to supporting evidence, such as department rosters and approved time allocation sheets.
6. Test computation of gross and net payment.

7. Compare endorsement on payroll check with signature on W-4 form.

The following are additional steps for payments charged to federally assisted programs.

1. Compare the position description for which payment was made to the approved grant budget.
2. Test payment rate:
 - a. For compliance with Federal minimum wage.
 - b. To determine whether rate of pay is consistent for similar work in other activities of the organization.
 - c. For compliance with the terms of the grant if the position is specifically covered in the agreement.
3. If the organization has developed a fringe benefit rate, review for reasonableness and equitable application to all payroll costs. Also determine that no elements making up the fringe benefit pool have been included in direct labor charges.

Billings and receivables

Audit objectives

Test objectives of billings and receivables are to establish that:

1. Billings represent valid claims for goods shipped or services received and are based on established pricing policies.
2. Billings and related receivables are recorded on the date when the transaction is completed.
3. Noncash credits to receivable accounts are appropriately authorized and supported and are made in accordance with the organization's established policies.
4. Billings and receivables are accurately recorded in the accounting records.

Illustrative test procedures

General tests

1. Test footings and crossfootings of billing registers and test postings to the general ledger and subsidiary ledgers.
2. Test the cutoff in processing and recording billings and noncash credits to receivables.
3. Test the numerical sequence of a series of completed invoices and shipping documents (bills of lading).
4. Test footings and extensions of aged trial balance of receivables. Trace totals to general ledger balances and test aging against subsidiary ledgers.
5. Test the records of goods ordered and services requested to shipping and service records.
6. Test shipping document files and the records of services performed to determine whether billings were prepared.
7. Test noncash credits to receivables by reviewing support and authorizations.

Detailed tests

Select a sample of billings and:

1. Test pricing to price lists, contracts, or other authorizations.
2. Test the shipment quantities or descriptions of services to shipping or service records. Note lags between dates of shipment or rendering of services and the billing dates.
3. Test the footings and extensions on the billing.
4. Test the recording of billings to the billing register and subsidiary ledgers. Test for posting of names, dates, amounts, and account distributions.

Property and equipment

Internal control tests over property and equipment can be made in conjunction with property and equipment account balance tests.

Audit objectives

The objectives of control tests over property and equipment are to establish that:

1. Recorded property and equipment exists and is being used in the operation or programs for which they were acquired or to which they are charged.
2. Property and equipment acquisitions and disposals have been properly authorized, approved, and recorded.
3. Charges to grant programs for depreciation or use allowances were properly computed in accordance with applicable Federal cost principles and the terms of the grant agreements.

Sample test procedures

1. Obtain a summary of charges to grant program accounts representing asset acquisition, depreciation, or use allowances.
 - a. Test mathematical accuracy of the schedule.
 - b. Trace totals to general ledger accounts.
 - c. Trace opening figures to prior audit papers, if available.
2. Test selected items to determine whether the expenditures or charges for depreciation or use were contemplated by the approved budget.
3. For acquisitions of property and equipment:
 - a. Review purchase orders for required approvals.
 - b. Determine whether requirements for competitive bidding, if applicable, were met.
4. Test the calculation of depreciation or use allowances.
 - a. Verify mathematical accuracy of the depreciation calculation.
 - b. Determine whether the depreciation or use charge was based on acquisition costs or a reasonable estimate of same.

- c. Determine whether the method of computing depreciation has been consistently applied to similar assets for all Federal programs the organization administered.

- d. Compare use allowance rates claimed with the limitations for such allowances contained in Federal regulations.

5. On a selected basis verify the physical presence of assets charged to programs or activities. Determine whether the programs or activities charged with the assets or depreciations are benefiting from the assets. (Are the assets being used for programs other than the one charged?)

Evaluation of test results

As previously stated, the auditor's study and evaluation of internal control is to determine the extent to which other audit procedures can be restricted.

After completing the tests of accounting system applications, the auditor should evaluate the test results and draw final conclusions on internal controls. The evaluation should lead the auditor to confirm or reject the preliminary evaluation of internal controls. The conclusions should be shown in the selection of audit procedures for the account balance tests that will follow.

The final evaluation of internal controls should be referenced to (1) preliminary evaluation of controls, (2) test of transaction workpapers, and (3) the audit program procedures to be followed in testing account balances.

Concerning item 3 above, the auditor is expected to indicate the basis for selecting procedures by way of a note to the audit program or in a memorandum accompanying the sections of workpapers dealing with account balance tests.

CHAPTER 7

TESTS OF ACCOUNT BALANCES AND OTHER AUDIT PROCEDURES

INTRODUCTION

The balance of the procedures used in determining the fairness of the financial statements and/or the allowability of costs depends on the materiality of transactions and balances, the auditor's evaluation of internal controls, and the nature and scope of the audit report issued.

The material which follows deals with approaches to testing account balances. For each account or type of account, there is a listing of illustrative audit procedures and a discussion of the potential impact of internal control conditions in selecting procedures.

GENERAL PROCEDURES

The auditor should:

1. Obtain a working trial balance of the general ledger balances and verify them with the general ledger accounts.
2. Trace balances from the working trial balance to grant report.
3. Obtain approved budgets covering the operation, including those applicable to federally assisted programs administered by the organization. Determine whether the expenditures proposed in the budget are authorized by line item for the various programs and activities.
4. Compare the expenditure accounts from the general ledger trial balance with the approved budget and determine if budget authorizations were exceeded.

BALANCE SHEET ACCOUNTS

The balance sheet accounts, for which illustrative audit procedures have been provided, are not all inclusive of the types of accounts which may be encountered in an audit of a particular grantee organization. The section of AICPA's "Industry Audit Guide--Audits of State and Local Governmental Units" dealing with audit procedures for certain asset, liability, and fund balance accounts describes other accounts which may be present at non-Federal governmental organizations. This material, which describes the general workings

of certain accounts and types of procedures that the auditor should consider, should be reviewed in connection with examination of governmental units.

Cash balances

The objective of the examination of cash balances is to determine whether such balances are owned and are either on hand or on deposit in a banking institution.

Illustrative test procedures

1. Obtain a schedule of cash balances.
2. Count cash funds on hand and confirm bank balances. The confirmation should request information from the bank related to loans, letters of credit, contingencies, guarantees, and collection items.
3. Review bank reconciliations at period end and obtain and review cutoff bank statement after the audit period.
4. Review cutoffs of cash disbursements and cash receipts.
5. Count petty cash.

Discussion

When drafting the audit program for use in examining cash, the auditor should consider the evaluation of internal controls over the processing of cash receipts and disbursements.

If the internal controls over cash are evaluated as weak, the procedures used should reflect little or no reliance on the organization's poor practices. For example, the auditor may prepare the bank reconciliation rather than use review procedures. The auditor might also examine bank reconciliations for periods before and after the financial statement date. If controls over the posting of cash records are evaluated as weak, the auditor should consider extending cutoff tests and possibly reconciling the cash-book balances against the bank statements.

If internal controls over cash are evaluated as strong, the auditor could limit tests of cash funds to confirmation of bank balances, review of the organization's bank reconciliation, and performance of limited cutoff procedures.

Receivable balances

The objectives of examining receivable balances are to determine that such balances are properly recorded and reflect valid claims in amounts deemed to be collectible.

Illustrative test procedures

1. Obtain aged listing of receivable balances (retain copy of summary for the working papers).
2. Verify the mathematical accuracy of the listing and test individual items to the customer's ledgers, and trace the listing total to the general ledger account.
3. Confirm receivable balances.
4. If applicable, examine notes evidencing indebtedness and inspect collateral.
5. Verify the amount of any interest accrual.
6. Determine the adequacy of reserves for uncollectible receivables. Consider such items as age of receivables, credit reports, and collection actions taken to date.
7. Review noncash credits to receivables, such as allowances and bad debt writeoffs. Determine if such reductions of receivables were properly authorized and adequately supported.
8. Perform cutoff procedures on billings and noncash credits to receivables.

Discussion

When drafting the audit program for use in examining receivables, the auditor should consider the evaluation of internal controls over the processing of billings and cash receipts and the maintenance and administration of receivable records. In addition to the general illustrative procedures described below, auditors of non-Federal governmental organizations should consider using the procedures listed on pages 58 to 60 of AICPA's "Industry Audit Guide--Audits of State and Local Governmental Units." The material discusses procedures for auditing various types of receivables found in governmental organizations.

Some of the illustrative procedures listed above, such as confirmation of receivable balances, may be performed at a point before the close of the financial period under audit. If this is the case, the auditor must consider how to update this work at the close of the period. The auditor should also consider the materiality of transactions during the intervening period as well as his evaluation of internal controls.

The auditor may choose to restrict the account balance work on noncash credits to receivables if these transactions were adequately tested in the internal control study phase. The account balance work in that case may be limited to cutoff procedures and review of comparative or budgeted balances.

In selecting the confirmation procedures the auditor needs to evaluate a number of factors, including:

1. The type and materiality of account balances.
2. The prospects of debtors' response.
3. Available alternatives for nonresponses.

Investments

The objectives of examining investments are to determine:

1. The existence and ownership of recorded investments.
2. That the carrying value of investments is not permanently impaired by a reduction in market value.
3. That income from the investment is properly accrued and recorded.

Illustrative test procedures

1. Obtain a schedule showing (a) investment activity during the audit period--opening balances, purchases, sales, and ending balances--and (b) investment income, including accruals, for accrual basis statements.
2. Verify the mathematical accuracy of the schedule and trace the investment and income balances to the general ledger.
3. Confirm or count and inspect investment securities.
4. Test advices or invoices supporting the purchase and sale of investments.

5. Review the organization's charter or bylaws to determine that the types of investments made are in accordance with those provisions.
6. Determine that investment purchases and sales are properly authorized and approved.
7. Obtain market value information on investments held at the end of the period. Consider need for writing down investments which appear to have sustained a permanent reduction from carrying value.
8. Test investment income through calculation or by reviewing published information for dividends.

Discussion

The materiality of transactions and balances together with internal controls related to receipts and disbursements will determine the extent of investment and income tests.

Before examining investments, the auditor should become familiar with legal restrictions and regulations affecting the organization's investments. Certain types of investments may be prohibited by statute, charter, or bylaws. In addition, there may be restrictions on retaining investment income, as is the case when advances of Federal categorical grant funds are invested by a unit of local government.

Accounts payable and accrued expenses

The objectives of the examination of accounts payable and accrued expenses are to determine that:

1. Recorded liabilities and accruals represent valid obligations for the period under audit.
2. All valid obligations are recorded.

Illustrative test procedures

1. Obtain a listing of accounts payable and accrued liabilities and test the mathematical accuracy of the listings.
2. Trace the totals of the listings to the general ledger accounts.
3. Test vendor invoices and examine calculations and other support for payable and accrual items.

4. Test payments of payables and accruals after the audit date.
5. Consider confirming payable and accrual items.
6. Compare accrual items to prior period balances and investigate major differences.
7. Review the accrual for payroll and fringe benefits.
8. Perform a test for unrecorded liabilities by reviewing
 - a. the cash disbursement journal and voucher register transactions after the audit date and
 - b. unentered invoices, unmatched purchase orders, and receiving reports.

Discussion

The internal controls over cash disbursements, payroll, purchasing, accounts payable, and receiving, together with the materiality of transactions and balances should be considered in drafting the liability and accrual program. The auditor should consider confirmation of creditors when internal controls are evaluated as weak or when the accounts payable consists of few balances of relatively large amounts.

Applicable internal control procedures should result in reducing the amount of work needed to establish the reasonableness of the accounts payable and accrual balances. However, regardless of the strength of internal controls, some work should be done to establish that a proper cutoff was made in recording payables and accruals.

COSTS AND EXPENSES

The types of costs and expenses found in grantee organization audits vary, depending on the types of programs the organization administers. Criteria for allowability of costs are contained in OMB circulars and in the applicable program regulations, which were reviewed during the internal control study phase of the audit.

The examination of cost and expense balances is related to and affected by other work done previously, including:

1. The internal control study of cash disbursements, accounts payable, purchasing, and receiving.

2. The review of contract terms and budget versus actual comparisons.
3. The review of certain asset and liability account balances.

Other factors affecting the audit program for examining costs and expenses are the materiality of transactions and balances and the degree of restriction contemplated by the various grant programs. For example, grant programs with relatively broad categories of allowable costs and little or no restrictions as to transfers between budget categories require less detailed examinations than do grant programs with more restrictive provisions.

The test should cover costs charged directly to the program, together with those costs which are, in part, allocated to the program, such as indirect costs.

The degree of additional examination of individual cost and expense transactions will vary according to the impact of the items discussed above. If, for instance, internal controls were evaluated as weak in the approval of transactions and appropriateness of costs and expenses incurred, the auditor might extend tests to cover a large part of these costs. If, however, internal controls were evaluated as strong, the auditor might limit the remaining work to (1) examining only a small number of material transactions, (2) if applicable, reviewing limitations on the maximum amount of indirect costs chargeable to a program, and (3) a line item comparing budget to actual expenditures with followup on overruns, if applicable, and major underruns.

PROGRAM FUNDING

Review grant terms and program regulations to determine the basis for calculating the Federal share.

1. The test of Federal and non-Federal contributions to the program should be made after completing audit tests and preparing audit adjustments for program expenditures. Adjustments may be required for such items as cutoff errors (expenditures of funds prior to receipt of grant award) and those costs which the auditee agrees are clearly unallowable. The auditor should prepare a dual calculation of Federal contributions in those instances where the auditee does not agree with the auditor's proposed adjustments. The calculations should be based on (a) the auditee's program costs and questioned costs and (b) program costs with questioned costs removed.

2. Some grant programs provide for Federal funding at different rates for different costs categories. The auditor should be alert to such requirements and should test the matching share on the prescribed basis.
3. The requirements of the source and type of matching funds to be provided as the non-Federal share varies among the programs. As part of the test to determine the organization's compliance with matching-share requirements, the auditor should determine the rules applicable to the programs under audit. If the grant program provides that funds obtained from other Federal programs not be used for matching on the program under audit, then the auditor must determine the source of the organization's funds. In-kind contributions should be tested against the criteria contained in applicable Federal circulars and granting-agency regulations.

INDIRECT COSTS

Where the organization has an approved indirect cost allocation plan, the auditor should examine the costs charged to the indirect expense pool and determine that:

1. The indirect costs accumulated in the expense pool are in conformity with the approved plan.
2. The indirect costs accumulated in this expense pool are not also charged directly to some projects.
3. The indirect cost rate applied by the grantee organization agrees with the rate negotiated under the approved plan.

If the grantee does not have an approved indirect cost allocation plan, the auditor should examine the supporting documentation for indirect costs charged to grants and determine whether:

1. The indirect costs can be reconciled to financial statements or books of account.
2. The methods of allocating expenses are in accord with generally accepted accounting practices.
3. Costs incurred for the same purpose are not treated as indirect costs and also charged to projects.

4. The data (e.g., square footage, population, and salaries) included in the proposed bases is current and accurate.
5. The expense is reasonable and properly allocable.
6. The indirect expense pool contains only items that are consistent with the applicable cost principles.
7. The proposed expenses were incurred within the period under review.

INTERNAL CONTROL REVIEW QUESTIONNAIRE
AND DOCUMENTATION GUIDE

The material which follows was designed as an aid in reviewing internal controls. It consists of controls and suggestions for items which should be documented in the workpapers. The documentation items are in parentheses following certain questions. For the most part, the suggested documentation items have been recommended because auditors may wish to verify the related control aspects or procedures in the internal control-testing phase, if they intend to rely on the particular aspect in limiting the tests of account balances.

The questionnaire and documentation material does not purport to cover all aspects of internal control present at a particular organization. The material is designed to provide basic coverage, and the auditor should select those questions and documentation procedures most applicable to the system of internal control being audited.

The material does not address controls that may be present in an EDP environment nor compliance aspects which may be required under a particular categorical grant or loan program. Accordingly, the questionnaire and documentation material should be expanded to provide appropriate coverage of these areas.

The questionnaire should be retained in the workpapers. The auditor may choose to use this material only as a checklist and to document the review through memorandums, analysis papers, and flow charts.

GENERAL

The following questions relate to the internal accounting controls of the overall organization.

1. Are duties for key employees of the organization defined?
2. Is there an organization chart which sets forth the actual lines of responsibility?
3. Are written procedures maintained covering the recording of transactions?
 - a. Covering an accounting manual?
 - b. Covering a chart of accounts?

4. Do the procedures, chart of accounts, etc., provide for identifying receipts and expenditures of program funds separately for each grant?
5. Does the accounting system provide for accumulating and recording expenditures by grant and cost category shown in the approved budget?
6. Does the organization maintain a policy manual covering
 - a. approval authority for financial transactions and
 - b. guidelines for controlling expenditures, such as purchasing requirements and travel authorizations?
7. Are there procedures governing the maintenance of accounting records?
 - a. Are subsidiary records for accounts payable, accounts receivable, etc., balanced with control accounts on a regular basis? (List the types of records and the timing of reconciliation procedures.)
 - b. Are journal entries approved and explained or supported?
 - c. Do accrual accounts provide adequate control over income and expense?
 - d. Are accounting records and valuables secured in limited-access areas?
8. Are duties separated so that no one individual has complete authority over an entire financial transaction? (Document the segregation of duties or lack thereof affecting accounting system applications.)
9. Does the organization use an operating budget to control funds by activity?
10. Are there controls to prevent expenditure of funds in excess of approved, budgeted amounts? For example, are purchase requisitions reviewed against remaining amount in budget category?

11. Has any aspect of the organization's activities been audited within the past 2 years by another governmental agency or independent public accountant? 1/
12. Has the organization obtained fidelity bond coverage for responsible officials? (Indicate the officials covered and the amounts of coverage.)
13. Has the organization obtained fidelity bond coverage in the amounts required by statutes or organization policy?
14. Are grant financial reports prepared for required accounting periods within the time imposed by the agencies? (Indicate the types of reports and the due dates.)
15. Does the organization have an indirect cost allocation plan or a negotiated indirect cost rate?

CASH RECEIPTS

The following conditions are indicative of satisfactory control over cash receipts.

1. The individual responsible for the cash receipts function does not sign checks or reconcile the bank accounts and is not responsible for noncash, accounting records, such as accounts receivable, the general ledger, or the general journal.
2. Receipts are deposited promptly and intact.
3. Current receipts are controlled by registers.
4. The organization has established procedures to minimize the time elapsing between the transfer of funds from the Federal Government and their disbursement.

The material which follows is designed to assist the auditor in reviewing and documenting the cash receipts function.

1/Pertinent prior audit reports, together with the organization's replies to audit comments, should be reviewed in connection with the current examination. The current workpapers should indicate key findings from this review.

1. Incoming mail:
 - a. Are remittances listed on a control sheet for comparison with the bank deposit ticket?
 - b. Are the check remittances restrictively endorsed by the person opening the mail?
2. Are all receipts required to be recorded promptly and deposited intact daily or at appropriate regular intervals? (Describe the practice followed.)
3. Does the cashier prepare duplicate deposit tickets so that one copy can be signed by the bank and returned for checking against the cash receipts record by another person?
4. Is the person receiving cash without authority to sign checks and reconcile bank accounts and without access to accounting records other than cash receipts?
5. Are currency receipts controlled by cash registers, vending machines, or controlled prenumbered receipt forms?

PROGRAM RECEIPTS FROM THE FEDERAL GOVERNMENT

1. Does the organization have grant agreements providing for funding under requests for advance payments or letters of credit? (Describe the method of funding.)
2. Does the organization have procedures, including cash requirement projections, minimizing the time between the transfer of funds from the Federal Government and their disbursements?
3. Are Federal funds deposited in a separate bank account or accounted for through grant-loan fund control accounts?
4. Does the organization's calculation of Federal funds required consider updated estimates of allowable program costs?

BILLING AND RECEIVABLES

The following conditions are indicative of satisfactory control over billing and receivables.

1. There are controls to insure that all goods shipped and services performed are billed and recorded.

2. Billing is by serially numbered invoices.
3. All documents supporting billings, such as shipping orders and service tickets, are also serially numbered.
4. Price lists or contractual terms covering goods and services are used for computing billing amounts. Exceptions to price list amounts are approved by an organization official.
5. Detailed receivable records are periodically balanced with the general ledger control accounts.
6. Noncash credits to receivables are approved by an organization official.
7. An aged trial balance of receivables is periodically prepared and followup action is taken on overdue balances.
8. Duties are adequately separated so that the individual responsible for maintaining the receivable records does not have access to cash, approve credit to customers, authorize noncash credits to receivables, or authorize shipments of goods or performance of services.

BILLINGS

The material which follows is designed to assist the auditor in reviewing and documenting the billing and receivable functions.

1. Is the billing department notified of charges to be billed (a) for merchandise shipments, by receiving a copy of the shipping documents directly from the shipping department or (b) for services performed, by receiving a copy of the record of services performed directly from the individual or group performing the services? (Describe the practice followed.)
2. Are shipping documents and services records prenumbered and correlated with billing invoices?
3. Are billing invoices prenumbered and accounted for?
4. Are billing prices based on standard price lists or contractual agreements? (Describe procedure.)

5. If billing amounts are not based on standard price lists or contracts, are amounts approved by an official outside the billing department?
6. Are prices and extensions on billings independently verified?
7. Is a copy of the billing invoice sent directly to the accounts receivable departments?
8. Are there procedures to control the issuance of free merchandise and services? (Describe controls.)
9. Are there procedures to control the receipt of funds for miscellaneous transactions, such as (a) the sale or rental of property and equipment and (b) income from investments? (Describe procedures.)

RECEIVABLES

1. Are receivables detail ledgers periodically balanced with general ledger control accounts? (Describe practice.)
2. Are statements of account periodically prepared and mailed to debtors?
3. Are aged trial balances of receivables periodically prepared and reviewed by the credit department or some designated employee not responsible for billings, cash, or receivables? (Describe procedures.)
4. Are notes receivable approved by an official before they are accepted by the organization?
5. Are notes and collateral periodically inspected by someone other than the custodian?
6. Is there control over followup action on delinquent accounts? (Describe the control procedures.)
7. Are noncash reductions of receivables approved by an organization official?
8. Are there controls over advances to and receivables from employees?

PURCHASING, RECEIVING, AND ACCOUNTS PAYABLE

The following conditions are indicative of satisfactory control over purchasing, receiving, and accounts payable.

1. Prenumbered purchase orders are used for all items of cost and expense.
2. There are procedures to insure procurement at competitive prices.
3. Receiving reports are used to control the receipt of merchandise.
4. There is effective review by a responsible official following prescribed procedures for program coding, pricing, and extending vendors' invoices.
5. Invoices are matched with purchase orders and receiving reports.
6. Costs are reviewed for charges to direct and indirect cost centers in accordance with applicable grant agreements and applicable Federal Management Circulars pertaining to cost principles.
7. When accrual accounting is required, the organization has adequate controls, such as checklists for statement-closing procedures, to insure that open invoices and uninvolved amounts for goods and services received are properly accrued or recorded in the books or controlled through worksheet entries.
8. There is adequate segregation of duties in that different individuals are responsible for (a) purchase (b) receipt of merchandise or services, and (c) voucher approval.

The following questions are designed to assist the auditor in reviewing and documenting the purchasing, receiving, and accounts payable functions.

PURCHASING

1. Is the purchasing function separate from accounting and receiving?
2. Does the organization obtain competitive bids for items, such as rental or service agreements, over specified amounts? (Indicate the amounts.)
3. Is the purchasing agent required to obtain additional approval on purchase orders above a stated amount? (Indicate the amount.)

4. Are there procedures to obtain the best possible price for items not subject to competitive-bidding requirements, such as approved vendor lists and supply item catalogs? (Describe the procedures.)
5. Are purchase orders required for purchasing all equipment and services?
6. Are purchase orders controlled and accounted for, by prenumbering and keeping a logbook? (Describe method.)
7. Do grant-loan agreements or related regulations impose requirements which differ from the organization's normal policies, such as competitive-bid requirements? (List exceptions.)
8. Is the purchasing department required to maintain control over items or dollar amounts requiring the contracting officer's advance approval? (If yes, describe controlling factors.)
9. Under the terms of OMB Circular 74-4, certain costs and expenditures incurred by units of State and local governments are allowable only upon specific prior approval of the grantor Federal agency. Determine whether the grantee organization has established policies and procedures governing the prior approval of expenditures in the following categories.
 - a. Automatic data processing costs.
 - b. Building space rental costs.
 - c. Costs related to the maintenance and operation of the organization's facilities.
 - d. Costs related to the rearrangement and alteration of the organization's facilities.
 - e. Allowances for depreciation and use of publicly owned buildings.
 - f. The cost of space procured under a rental-purchase or a lease-with-option-to-purchase agreement.
 - g. Capital expenditures.
 - h. Insurance and indemnification expenses.

- i. The cost of management studies.
 - j. Preagreement costs.
 - k. Professional services costs.
 - l. Proposal costs.
10. Under the terms of OMB Circular 74-4, certain costs incurred by units of State and local governments are not allowable as charges to Federal agency grants. Determine whether the grantee organization has established policies and procedures to preclude charging Federal grant programs with the following types of costs.
 - a. Bad debt expenses.
 - b. Contingencies.
 - c. Contribution and donation expenditures.
 - d. Entertainment expenses.
 - e. Fines and penalties.
 - f. Interest and other financial costs.
 - g. Legislative expenses.
 - h. Charges representing the nonrecovery of costs under grant agreements.
 - i. The expenses of a State Governor or chief executive of a political subdivision.

RECEIVING

1. Does the organization have a receiving function to handle receipt of all materials and equipment?
2. Are supplies and equipment inspected and counted before acceptance for use?
3. Are quantities and descriptions of supplies and equipment checked by the receiving department against a copy of the purchase order or some other form of notification?
4. Is a logbook or permanent copy of the receiving ticket kept in the receiving department?

ACCOUNTS PAYABLE

1. Is control established over incoming vendor invoices?
2. Are receiving reports matched to the vendor invoices and purchase orders, and are all of these documents kept in accessible files?
3. Are charges for services required to be supported by evidence of performance by individuals other than the ones who incurred the obligations?
4. Are extensions on invoices and applicable freight charges checked by accounts payable personnel?
5. Is the program to be charged entered on the invoice and checked against the purchase order and approved budget?
6. Is there an auditor of disbursements who reviews each voucher to see that proper procedures have been followed?
7. Are checks adequately cross-referenced to vouchers?
8. Are there individuals responsible for accounts payable other than those responsible for cash receipts?
9. Are accrual accounts kept for items which are not invoiced or paid on a regular basis?
10. Are unpaid vouchers totaled and compared with the general ledger on a monthly basis? (If not, indicate when the procedure is done.)

CASH DISBURSEMENTS

The following conditions are indicative of satisfactory controls over cash disbursements.

1. Duties are adequately separated, different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipts.
2. All disbursements are properly supported by evidence of receipt and approval of the related goods and services.
3. Blank checks are not signed.
4. Unissued checks are kept in a secure area.

5. Bank accounts are reconciled monthly.
6. Bank accounts and check signers are authorized by the board of directors or trustees.
7. Petty cash vouchers are required for each fund disbursement.
8. The petty cash fund is kept on an imprest basis.

The following material is designed to assist the auditor in reviewing and documenting cash disbursements.

1. Are checks controlled and accounted for with safeguards over unused, returned, and voided checks?
2. Is the drawing of checks to cash or bearer prohibited?
3. Do supporting documents, such as invoices, purchase orders, and receiving reports, accompany checks for the check signers' review?
4. Are vouchers and supporting documents appropriately canceled (stamped or perforated) to prevent duplicate payments?
5. If check-signing plates are used, are they adequately controlled (i.e., maintained by a responsible official who reviews and accounts for prepared checks)?
6. Are two signatures required on all checks or on checks over stated amounts? (Document the procedure followed.)
7. Are check signers responsible officials or employees of the organization? (Obtain a list of authorized signers for the workpapers.)
8. Is the person who prepares the check or initiates the voucher other than the person who mails the check?
9. Are bank accounts reconciled monthly and are differences resolved? (If not, what are the procedures?)
10. Concerning petty cash disbursements:
 - a. Is petty cash reimbursed by check and are disbursements reviewed at that time?

- b. Is there a maximum amount, reasonable in the circumstances, for payments made in cash? (Indicate the amount.)
- c. Are petty cash vouchers written in ink to prevent alteration?
- d. Are petty cash vouchers canceled upon reimbursement of the fund to prevent their reuse?

PAYROLL

The following conditions are indicative of satisfactory controls over payroll.

1. Written authorizations are on file for all employees, covering rates of pay, withholdings, and deductions.
2. The organization has written personnel policies covering job descriptions, hiring procedures, promotions, and dismissals.
3. Distribution of payroll charges is based on documentation prepared outside the payroll department.
4. Payroll charges are reviewed against program budgets, and deviations are reported to management for follow-up action.
5. Adequate timekeeping procedures, including the use of timeclocks or attendance sheets and supervisory review and approval, are employed for controlling paid time.
6. Payroll checks are prepared and distributed by individuals independent of each other.
7. Other key payroll and personnel duties, such as timekeeping, salary authorization, and personnel administration, are adequately separated.

The material which follows is designed to assist the auditor in reviewing and documenting the payroll function.

1. Are personnel policies in writing?
2. Are payroll and personnel policies governing compensation in accordance with the requirements of grant agreements?

3. Are there procedures to control time and attendance reporting?
 - a. Are timecards or attendance sheets used? (Indicate the method.)
 - b. Is supervisory approval of time and attendance reports required?
4. Are there procedures to insure that employees are paid in accordance with approved wage and salary rates?
5. Is the distribution of payroll charges checked by a second person and are aggregate amounts compared to the approved budget?
6. Are authorizations on file covering rates of pay, withholdings, and deductions?
7. Are wages paid at or above the Federal minimum wage?
8. Are procedures adequate for controlling (a) overtime wages, (b) overtime work authorization, and (c) supervisory approval of overtime?
9. Are payroll checks distributed by persons not responsible for preparing the checks?

PROPERTY AND EQUIPMENT

The following conditions are indicative of satisfactory control over property and equipment.

1. There is an effective system of authorization and approval of capital equipment expenditures.
2. Accounting practices for recording capital assets are reduced to writing.
3. Detailed records of individual capital assets are kept and periodically balanced with the general ledger accounts.
4. There are effective procedures for authorizing and accounting for disposals.
5. Property and equipment is stored in a secure place.

The following questions are designed to assist the auditor in reviewing and documenting the system of control over property and equipment.

1. Are executive authorizations and approvals required for originating expenditures for capital items?
2. Are expenditures for capital items reviewed for grantor approval before funds are committed?
3. Are supplemental authorizations, including those of the grantor agency, required for expenditures in excess of originally approved amounts?
4. Does the organization have established policies covering capitalization and depreciation? (Describe policies.)
5. Does the organization charge depreciation or use allowances on property and equipment against any grant programs which it administers?
6. Is historical cost the basis for computing depreciation or use allowances?
7. Are the organization's depreciation policies or methods of computing use allowances in accord with the standards outlined in Federal circulars or agency regulations?
8. Are there detailed records showing the asset values of individual units of property and equipment?
9. Are detailed property records periodically balanced to the general ledger?
10. Are detailed property records periodically checked by physical inventory?
11. Are differences between book records and physical counts reconciled and are the records adjusted to reflect shortages?
12. Are there procedures governing the disposition of property and equipment? (Describe procedures.)
13. Is the estimated salvage value noted on the authorization order relative to disposition of property and equipment?

14. Are periodic reports submitted showing obsolete equipment, equipment needing repair, or equipment no longer useful to the organization? (Describe reports.)

INDIRECT COSTS

1. Does the organization have an indirect cost allocation plan or a negotiated indirect cost rate? (Paragraph F, Attachment A, Circular 74-4.)
2. Is the plan prepared in accordance with the provisions of OMB Circular 74-4?
3. Has audit cognizance for the plan been established and are the rates accepted by all participating Federal and State agencies?
4. Does the organization have procedures which provide assurance that consistent treatment is applied in the distribution of charges as direct or indirect costs to all grants?

ANYWHERE USA
METROPOLITAN AREA REGIONAL PLANNING COUNCIL
BALANCE SHEET--ALL FUNDS 1/
JUNE 30, 1976

	General fund	Federal grant funds	State grant funds	Other special revenue funds	General fixed assets
ASSETS					
Cash in treasury.....	\$202,878	\$ 181,523	\$10,664	\$15,036	\$ -
Cash in interest bearing bank deposits....	200,000	-	-	-	-
Due from other agencies:					
Federal.....	-	865,710	-	-	-
State.....	-	-	40,253	-	-
Local.....	-	-	4,516	24,964	-
Other.....	-	-	-	-	-
Grant authorized and unexpended:					
Federal.....	-	1,013,873	-	-	-
State.....	-	-	32,090	-	-
Local.....	-	-	-	-	-
Other.....	-	-	11,500	1,681	-
Due from other funds.....	26,863	-	-	-	-
Working capital advances.....	105,609	-	-	-	-
Equipment.....	-	-	-	-	29,183
Total assets.....	\$535,350	\$2,061,106	\$99,023	\$41,681	\$29,183
LIABILITIES					
Working capital advances					
General fund.....	\$ -	\$ 84,654	\$10,555	\$10,400	\$ -
Accrued payroll.....	9,810	18,491	-	4,587	-
Due to general fund.....	-	20,154	-	4,259	-
Total liabilities	\$ 9,810	\$ 123,299	\$10,555	\$19,246	-
RESERVES AND FUND BALANCE					
Continuing appropriations.....	-	1,124,821	16,653	12,235	-
Reserve for prior years encumbrances....	3,913	-	-	-	-
Reserve for current year encumbrances....	83,005	812,986	71,815	10,200	-
Investment in fixed assets.....	-	-	-	-	29,183
Fund balance:					
Restricted.....	13,770	-	-	-	-
Unrestricted.....	424,852	-	-	-	-
Total reserves and fund balance	525,540	1,937,807	88,468	22,435	29,183
Total liabilities and reserves and fund balance.....	\$535,350	\$2,061,106	\$99,023	\$41,681	\$29,183

1/Statements prepared in accord with "Governmental Accounting and Financial Reporting Principles" developed by the National Council on Governmental Accounting may be substituted for these statements, if they provide similar information.

ANYWHERE USA
METROPOLITAN REGIONAL PLANNING COUNCIL
GENERAL FUND BALANCE SHEET
JUNE 30, 1976

ASSETS

Cash in treasury.....	\$202,878
Cash in interest bearing bank deposits.....	200,000
Due from other funds.....	26,863
Working capital advances.....	105,609
Total assets.....	\$535,350

LIABILITIES

Accrued payroll.....	9,810
----------------------	-------

RESERVES AND FUND BALANCE

Reserve for prior years encumbrances (sch. 1-A)....	3,913
Reserve for current year encumbrances (sch. 1-C)...	83,005
Fund balance (sch. 1-A):	
Restricted.....	13,770
Unrestricted.....	424,852
Total reserves and fund balance.....	525,540
Total liabilities and reserves and fund balance	\$535,350

ANYWHERE USA
METROPOLITAN AREA REGIONAL PLANNING COUNCIL
GENERAL FUND
ANALYSIS OF CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 1976

Fund balance at July 1, 1975.....	\$357,316
Appropriations (sch. 1-C).....	\$1,016,053
Less: Estimated revenue (sch. 1-B)...	991,551
Appropriated from fund balance.....	24,502
Fund balance unappropriated.....	332,814
Add:	
Fund balance adjustments applicable to Prior years:	
Prior years reserves:	86,994
Less: Expenditure \$80,175	
Prior years encumbrances	
(sch. 1).....	3,913 -84,088
Prior years encumbrances cancelled	2,906
Current year net addition to fund balance:	
Revenue over budget estimate	
(sch. 1-B)	50,163
Appropriations over expenditures	
(sch. 1-C)	52,739
Net addition	102,902
Fund balance	438,622
Less restricted for equipment purchase	13,770
FUND BALANCE AT JUNE 30, 1976 (Schedule 1).	<u>\$424,852</u>

ANYWHERE USA
METROPOLITAN AREA REGIONAL PLANNING COUNCIL
GENERAL FUND
STATEMENT OF REVENUE
YEAR ENDED JUNE 30, 1976

	Budget estimate	Revenue	Revenue over or (under) estimate
<u>Local government assessments</u>	\$393,474	\$394,747	\$ -
Interest:			
Interest on bank deposits	-	41,620	41,620
Interest on investments	-	2,738	2,738
Other interest and dividends	-	2,178	2,178
TOTAL INTEREST	-	46,536	46,536
Reimbursements from other funds	-	8,676	8,676
Services to other funds	597,077	555,674	(41,403)
Transfer of prior year local contributions from grant programs	-	28,357	28,357
Transfer of State subvention from grant programs	-	5,215	5,215
Unallocated State subvention	-	1,975	1,975
Other revenue	-	807	807
Total general fund revenue (sch. 1-A)	<u>\$991,551</u>	<u>\$1,041,714</u>	<u>\$50,163</u>

ANYWHERE USA
 METROPOLITAN AREA REGIONAL PLANNING COUNCIL
 GENERAL FUND
 STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
 YEAR ENDED JUNE 30, 1976

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Unencumbered balance</u>
ADMINISTRATION & GENERAL EXPENSE:				
Salaries and wages	\$ 187,155	\$169,564	\$ -	\$17,591
Fringe benefits	19,324	16,921	915	1,488
Office space rental	123,000	119,761	-	3,239
Office equipment rental	37,184	33,141	-	4,043
Legal fees	10,000	3,208	3,491	3,301
Other contractual services ...	30,000	18,505	10,390	1,105
Office supplies	28,750	22,493	1,000	5,257
Telephone	18,000	17,637	-	363
Postage	13,780	10,123	-	3,657
Travel	18,883	18,911	1,120	(1,148)
Transportation allowance	9,221	6,396	450	2,375
Special departmental expense .	10,000	9,434	704	(138)
Rental of automotive	7,324	4,705	350	2,269
Photocopy equipment rental ...	25,800	22,124	945	2,731
Memberships	5,025	5,045	-	(20)
Fidelity and general insurance	2,026	2,887	-	(861)
Report printing	2,400	2,909	300	(809)
Miscellaneous	9,040	9,318	880	(1,158)
Total administration & general expense	<u>556,912</u>	<u>493,082</u>	<u>20,545</u>	<u>43,285</u>
Equipment outlay	7,617	7,379	714	(476)
Board expense	25,000	19,748	-	5,252
Unallocated reserve	<u>51,400</u>	<u>47,400</u>	<u>625</u>	<u>3,375</u>
Subtotals	<u>640,929</u>	<u>567,609</u>	<u>21,884</u>	<u>51,436</u>
Accrued fringe benefits for grant programs	-	(57,905)	57,905	-
Local contribution to grant programs	<u>375,124</u>	<u>370,605</u>	<u>3,216</u>	<u>1,303</u>
Total general fund (sch. 1-A)	<u>\$1,016,053</u>	<u>\$880,309</u>	<u>83,005</u>	<u>\$52,739</u>

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APPENDIX II

APPENDIX II
Schedule 1-C

APPENDIX II

**ANYWHERE USA
METROPOLITAN AREA REGIONAL PLANNING COUNCIL
FEDERAL GRANT FUNDS
BALANCE SHEET
JUNE 30, 1976**

	Department of Housing and Urban Development			Department of Transportation					Environmental Protection Agency	
	Total	Grant No.		UMTA		FAR	FHWA			Grant No. 8 Area Waste Treatment Planning Program Fund
		1974-75 Urban Planning Assistance Fund	1975-76 Urban Planning Assistance Fund	1974-75 Urban Mass Technical Study Fund	1975-76 Urban Mass Technical Study Fund	Grant No. 5 S.D. Plan for Air Transporta- tion Fund	Grant No. 6 1974-75 Transporta- tion Planning 1/2% Fund	Grant No. 7 1974-75 Transporta- tion Planning 1/2% Fund		
Assets										
Cash (Sch. 2-A)	\$ 181,523	\$ 6,580	\$ -	\$ 55,316	\$ -	\$ 36,247	\$ 29,276	\$ 22,935	\$ 31,169	
Due from other agencies:										
Federal	865,710	-	48,815	-	150,767	45,197	23,420	7,177	590,334	
Local	-	-	-	-	-	-	-	-	-	
Grants authorized and unexpended:										
Federal	1,013,873	-	25,497	99,425	144,151	-	-	129,782	615,018	
Local	-	-	-	-	-	-	-	-	-	
Total assets	2,061,106	6,580	74,312	154,741	294,918	81,444	52,696	159,894	1,236,521	
Liabilities										
Working capital advances-- general fund (Sch. 2-A)	84,654	-	20,705	-	63,949	-	-	-	-	
Accrued payroll (Sch. 2-A)	18,491	-	3,208	-	11,536	-	-	1,464	2,283	
Due to general fund (Sch. 2-A)	20,154	-	3,496	-	12,574	-	-	1,595	2,489	
Total liabilities	123,299	-	27,409	-	88,059	-	-	3,059	4,772	
Reserves										
Continuing appropriation	1,124,821	644	38,246	124,249	180,189	11,000	-	155,455	615,018	
Reserve for encumbrances	812,986	5,916	8,657	30,492	26,670	70,444	52,696	1,380	616,731	
Total reserves	1,937,807	6,580	46,903	154,741	206,859	81,444	52,696	156,835	1,231,749	
Total liabilities and reserves	\$2,061,106	\$ 6,580	\$74,312	\$154,741	\$294,918	\$81,444	\$52,696	\$159,894	\$1,236,521	

ANYWHERE, USA
 METROPOLITAN AREA REGIONAL PLANNING COUNCIL
 FEDERAL GRANT FUNDS
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 YEAR ENDED JUNE 30, 1976

APPENDIX I I

	Department of Housing & Urban Development	Department of Transportation						Environmental Protection Agency	
		UMTA		FAA		FHWA			
	Grant No.1 1974-75 Urban Planning Assistance Fund	Grant No.2 1975-76 Urban Planning Assistance Fund	Grant No.3 1974-75 Urban Mass Technical Study Fund	Grant No.4 1975-76 Urban Mass Technical Study Fund	Grant No.5 S.D.Plan For Air Transport- ation Fund	Grant No.6 1974-75 Transport- ation Planning 1/28 Fund	Grant No.7 1975-76 Transport- ation Planning 1/28 Fund	Grant No.8 Area Waste Treatment Planning Program Fund	
Cash available July 1, 1975--\$	31,469	\$ -	\$ -	\$ -	\$ -	\$31,469	\$ -	\$ -	\$ -
Cash receipts:									
Federal grant contributions-	1,331,675	86,643	165,688	300,525	405,082	-	108,268	131,541	133,928
State subvention	118,388	-	25,966	-	59,100	-	-	33,322	-
Local contributions:									
Prior years assessments----	40,000	-	-	-	-	40,000	-	-	-
Current year assessment----	243,737	-	94,034	-	115,900	-	-	33,803	-
In-kind contribution----	-	-	-	-	-	-	-	-	-
Working capital advances- general fund (Sch. 2)-----	84,654	-	20,705	-	63,949	-	-	-	-
Total available	\$1,849,923	\$86,643	\$306,393	\$300,525	\$644,031	\$71,469	\$108,268	\$198,666	\$133,928
Cash disbursements:									
Direct costs-----	\$1,127,230	\$54,729	\$200,363	\$143,192	\$435,423	35,222	\$62,445	\$118,988	\$ 76,868
Indirect costs-----	479,322	14,460	112,734	17,806	232,718	-	11,139	59,802	30,663
Total project disburse- ments-----	1,606,552	69,189	313,097	160,998	668,141	35,222	73,584	178,790	107,531
Accrued payroll--June 30, 1975-----	11,005	955	-	8,896	-	-	1,154	-	-
Accrued payroll--June 30, 1976 (Sch. 2)-----	(18,491)	-	(3,208)	-	(11,536)	-	-	(1,464)	(2,283)
Due to general fund (Sch. 2)-----	(20,154)	-	(3,496)	-	(12,574)	-	-	(1,595)	(2,489)
Net project disbursements-----	1,578,912	70,144	306,393	169,894	644,031	35,222	74,738	175,731	102,759
Working capital advance reimbursements-----	89,488	9,919	-	75,315	-	-	4,254	-	-
Total disbursements-----	1,668,400	80,063	306,393	245,209	644,031	35,222	78,992	175,731	102,759
Cash available June 30, 1976 (Sch. 2)-----	\$ 181,523	\$ 6,580	\$ -	\$ 55,316	\$ -	\$36,247	\$29,276	\$ 22,935	\$ 31,169

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APPENDIX II
 Schedule 2-A

ANYWHERE USA
 METROPOLITAN AREA REGIONAL PLANNING COUNCIL
 STATE GRANT FUNDS
 BALANCE SHEET
 JUNE 30, 1976

Office of Planning and Research

Department of Transportation

	Total	Fund	Grant No. 10 Airport Noise Study Fund	Grant No. 11 University Work Study Fund	Grant No. 12 1974-75 Transit Implementation Program Fund	Grant No. 13 Air Transportation and Airport Study Fund	Grant No. 14 Regional Carpool Program Fund
ASSETS							
Cash in Treasury (sch. 3-A)	\$10,664	\$ -	\$ 4,232	\$ -	\$ -	\$ 6,432	\$ -
Due from other agencies:							
State	40,253	-	-	27,085	-	-	13,168
Other	4,516	-	-	4,516	-	-	-
Grants authorized and unexpended:							
State	32,090	-	27,934	-	-	-	4,156
Other	11,500	-	11,500	-	-	-	-
Total assets	<u>\$99,023</u>	<u>\$ -</u>	<u>\$43,666</u>	<u>\$31,601</u>	<u>\$ -</u>	<u>\$6,432</u>	<u>\$17,324</u>
LIABILITIES							
Working capital advances--general fund (sch. 3-A)	\$10,555	\$ -	\$ -	\$ 3,153	\$ -	\$ -	\$ 7,402
Total liabilities	<u>\$10,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,402</u>
RESERVES							
Continuing appropriation	\$16,653	\$ -	\$11,500	\$ -	\$ -	\$ 481	\$ 4,672
Reserve for encumbrances	71,815	-	32,166	28,448	-	5,951	5,250
Total reserves	<u>\$88,468</u>	<u>\$ -</u>	<u>\$43,666</u>	<u>\$28,448</u>	<u>\$ -</u>	<u>\$6,432</u>	<u>\$ 9,922</u>
Total liabilities and reserves	<u>\$99,023</u>	<u>\$ -</u>	<u>\$43,666</u>	<u>\$31,601</u>	<u>\$ -</u>	<u>\$6,432</u>	<u>\$17,324</u>

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APPENDIX II

APPENDIX II
 Schedule 3

ANYWHERE USA
 METROPOLITAN AREA REGIONAL PLANNING COUNCIL
 STATE GRANT FUNDS
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 YEAR ENDED JUNE 30, 1976

	Office of Planning and Research			Department of Transportation			
	Total	Grant No. 9 1974-75 Technical Assistance Interagency Coordination Fund	Grant No. 10 Airport Noise Study Fund	Grant No. 11 University Work Study Fund	Grant No. 12 1974-75 Transit Implementation Program Fund	Grant No. 13 Air Transportation and Airport Study Fund	Grant No. 14 Regional Carpool Program Fund
Cash available July 1, 1975	\$ 16,216	\$ 7,085	\$ -	\$ -	\$ -	\$9,131	\$ -
Cash receipts:							
State grant contributions	107,439	4,688	5,066	12,915	58,619	-	26,151
State subvention	-	-	-	-	-	-	-
Federal grant	10,288	-	-	-	10,288	-	-
In-kind contributions-- other agencies	15,484	-	-	15,484	-	-	5,625
Local contributions	10,625	-	5,000	-	-	-	-
Working capital advances--general fund (sch. 3)	10,555	-	-	3,153	-	-	7,402
Total available	<u>170,607</u>	<u>11,773</u>	<u>10,066</u>	<u>31,552</u>	<u>68,907</u>	<u>9,131</u>	<u>39,178</u>
Cash disbursements:							
Project disbursements:							
Direct costs	79,482	520	5,834	31,552	2,832	2,066	36,670
Indirect costs	4,319	-	-	-	1,186	633	2,500
Total project disbursements	83,801	520	5,834	31,552	4,018	2,699	39,178
Accrued payroll: June 30, 1975	443	65	-	-	378	-	-
Net project disburse- ments	84,244	585	5,834	31,552	4,396	2,699	39,178
Transfers to general fund	11,188	11,188	-	-	-	-	-
Returned to grantor Working capital advance reimbursement	64,511	-	-	-	64,511	-	-
Total disbursements	<u>159,943</u>	<u>11,773</u>	<u>5,834</u>	<u>31,552</u>	<u>68,907</u>	<u>2,699</u>	<u>39,178</u>
Cash available June 30, 1976 (sch. 3)	\$ <u>10,664</u>	\$ -	\$ <u>4,232</u>	\$ -	\$ -	\$ <u>6,412</u>	\$ -

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APPENDIX - II

APPENDIX II
 Schedule 3-A

APPENDIX II

APPENDIX II
Schedule 4

ANYWHERE USA
METROPOLITAN AREA REGIONAL PLANNING COUNCIL
OTHER SPECIAL REVENUE FUNDS
BALANCE SHEET
JUNE 30, 1976

	Grant No. 15 Local Transportation Administration	Grant No. 16 Transit Implementation Program Fund	Grant No. 17 Open Space Plan Fund	Grant No. 18 Environmental Impact Study Fund	Grant No. 19 Comprehensive Planning Fund	Grant No. 20 Member Assessment Special Study Fund
	Total	Fund	Fund	Fund	Fund	Fund
ASSETS						
Cash in Treasury (sch. 4-A)	\$15,036	\$ -	\$10,555	\$ -	\$ -	\$4,481
Due from other agencies--other	24,964	19,792	-	-	5,172	-
Grants authorized and unexpended--other	<u>1,681</u>	-	-	-	<u>1,631</u>	-
Total assets	<u>\$41,681</u>	<u>\$19,792</u>	<u>\$10,555</u>	<u>\$ -</u>	<u>\$6,853</u>	<u>\$4,481</u>
LIABILITIES						
Working capital advances--general fund (sch. 4-A)	\$10,400	\$ 5,572	\$ -	\$ -	\$4,828	\$ -
Accrued payroll (sch. 4-A)	4,587	1,923	-	-	315	2,319
Due to general fund (sch. 4-A)	<u>4,259</u>	<u>2,097</u>	-	-	-	<u>2,162</u>
Total liabilities	<u>\$19,246</u>	<u>\$ 9,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,173</u>	<u>\$4,481</u>
RESERVES						
Continuing appropriation	12,235	-	10,555	-	1,680	-
Reserve for encumbrances	<u>10,200</u>	<u>10,200</u>	-	-	-	-
Total reserves	<u>22,435</u>	<u>10,200</u>	<u>10,555</u>	<u>-</u>	<u>1,680</u>	<u>-</u>
Total liabilities and reserves	<u>\$41,681</u>	<u>\$19,792</u>	<u>\$10,555</u>	<u>\$ -</u>	<u>\$6,853</u>	<u>\$4,481</u>

ANYWHERE USA
 METROPOLITAN AREA REGIONAL PLANNING COUNCIL
 OTHER SPECIAL REVENUE FUNDS
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 YEAR ENDED JUNE 30, 1976

	Total	Grant No. 15 Local Transportation Administration Fund	Grant No. 16 Transit Implementation Program Fund	Grant No. 17 Open Space Plan Fund	Grant No. 18 Environmental Impact Study Fund	Grant No. 19 Comprehensive Planning Fund	Grant No. 20 Member Assessment Special Study Fund
Cash available July 1, 1975	\$ 34,348	\$ -	\$ 14,496	\$ 9,684	\$ 10,168	\$ -	\$ -
Cash receipts:							
Contributions from other agencies	142,829	75,302	-	-	-	38,557	28,970
Local contri- butions	-	-	-	-	-	-	-
Working capital advances-- general fund (sch. 4)	10,400	5,572	-	-	-	4,828	-
State subvention	276	-	-	-	-	-	276
<u>Total available</u>	<u>187,853</u>	<u>80,874</u>	<u>14,496</u>	<u>9,684</u>	<u>10,168</u>	<u>43,385</u>	<u>29,246</u>
Cash disbursements:							
Direct costs	118,863	58,613	3,241	3,434	437	34,574	18,564
Indirect costs	29,987	18,469	556	-	280	-	10,682
<u>Total project disbursements</u>	<u>148,850</u>	<u>77,082</u>	<u>3,797</u>	<u>3,434</u>	<u>717</u>	<u>34,574</u>	<u>29,246</u>
Accrued payroll-- June 30, 1975	1,431	315	144	-	-	972	-
Accrued payroll-- June 30, 1976 (sch. 4)	(4,587)	(1,923)	-	-	-	(345)	(2,319)
Due to general fund (sch. 4)	(4,259)	(2,097)	-	-	-	-	(2,162)
<u>Net project disbursements:</u>	<u>141,435</u>	<u>73,377</u>	<u>3,941</u>	<u>3,434</u>	<u>717</u>	<u>35,201</u>	<u>24,765</u>
Transfers to general fund	15,701	-	-	6,250	9,451	-	-
Working capital advance reimburse- ments	15,681	7,497	-	-	-	8,184	-
<u>Total dis- bursements</u>	<u>172,817</u>	<u>80,874</u>	<u>3,941</u>	<u>9,684</u>	<u>10,168</u>	<u>43,385</u>	<u>24,765</u>
CASH AVAILABLE JUNE 30, 1976 (sch. 4)	\$ 15,036	\$ -	\$ 10,555	\$ -	\$ -	\$ -	\$ 4,481

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Schedule 4-A

APPENDIX II

APPENDIX II
Schedule 5

ANYWHERE USA
METROPOLITAN AREA REGIONAL PLANNING COUNCIL
STATEMENT OF QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 1976

<u>Grant number and name</u>	<u>Questioned costs</u>
1. Urban Planning Assistance	\$ 843
2. Urban Planning Assistance	5,545
3. Urban Mass Tech. Study	1,038
4. Urban Mass Tech. Study	11,740
6. Transportation Planning	649
7. Transportation Planning	1,337
8. Area Waste Treatment Planning	1,787
12. Transit Implementation Program	414
13. Air Transportation & Airport Study	636
14. Regional Carpool Program	145
15. Local Transportation Administration	1,077
16. Transit Implementation Program	933
18. Environmental Impact Study	816
20. Member Assessment Special Study	694
	<u>\$27,654</u>

Note: The report should contain an explanation of the questioned costs.

APPENDIX III

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OFFICE OF MANAGEMENT AND BUDGET**Circular A-102, "Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments"****AGENCY:** Office of Management and Budget.**ACTION:** Final Policy.

SUMMARY: This notice revises OMB Circular A-102 by replacing paragraph 2h, Attachment G, with a new Attachment P entitled, "Audit Requirements." The revision originated from a Presidential initiative to streamline Federal aid, and is another part of OMB's system of guidance for federally assisted programs.

One area the President highlighted as having a substantial need for improvement was audit of federally assisted programs. He directed Federal departments and agencies to improve audit coordination, and to increase their reliance on audits made by State or local governments. This revision sets forth the audit requirements for State and local governments and Indian tribal governments receiving Federal assistance. It provides for independent audits of financial operations including compliance with certain provisions of Federal law and regulation. The requirements are established to insure that audits are made on an organization-wide basis rather than a grant-by-grant basis.

EFFECTIVE DATE: This revision becomes effective October 22, 1979.

FOR FURTHER INFORMATION CONTACT: John J. Lordan, Chief, Financial Management Branch, Office of Management of Budget, Washington, D.C. 20503, (202) 395-6823.

SUPPLEMENTARY INFORMATION: On July 11, 1979, a notice was published in the Federal Register (44 FR 40624-25) to amend Circular A-102. Interested persons were invited to submit written comments by September 11, 1979. About fifty comments were received from Federal agencies, State and local governments, professional associations, and others. The comments were considered in developing these final regulations. Although almost all commenters agreed with the concept of a single audit, some raised questions or made suggestions for clarifying changes. The more significant comments received, and OMB's responses to them are discussed below.

Changes in Final Regulation

Set forth below are changes that have been adopted in the final regulations. The paragraphs are keyed to the proposed regulations published on July 11, 1979.

1. Paragraph 1 has been amended to make the Attachment applicable to Indian tribal governments. This paragraph was also changed to make it clear that one of the objectives of the audit was to determine if financial reports to the Federal Government contain accurate and reliable data.

2. Paragraph 2. The definition of "cognizant agency" was added to this paragraph, and is now used uniformly throughout the Attachment.

3. Paragraph 3 was amended to provide that contracts awarded by recipients for audit services shall include a reference to this Attachment. Also, the paragraph was further divided into two separate paragraphs for clarity.

4. Paragraph 5. A clause was added to make it clear that the auditor should make a determination that the financial statements are presented fairly and in accordance with generally accepted accounting principles.

5. Paragraph 7. The phrase "at scheduled intervals" was deleted for clarity.

6. Paragraph 8 was changed to make it clear that, in the event irregularities are found, management officials above the level of involvement should be notified.

7. Paragraph 9 was restructured and reworded to clarify its intent. Also, a change was made to make it clear that auditors need express a positive assurance only with respect to items tested.

8. Paragraph 10 was amended to require cognizant agencies to notify auditors in writing when the three-year retention period for workpapers needs to be extended.

9. Paragraph 13. A sentence was added to make it clear that auditors are responsible for distributing audit reports to their program officials.

10. Paragraph 14. Changes were made to make it clear that this paragraph covered only State and local governments and Indian tribal governments. Also, the recipient's responsibilities with respect to subrecipient audits are more clearly delineated.

Suggested Changes Not Considered Necessary

Comment. Several commenters felt that there were conflicts between Attachment P and audit guidelines issued by the General Accounting Office.

Response. The GAO guidelines are currently being reviewed to assure consistency of policy.

Comment. Several commenters were concerned with the provisions of the Attachment requiring comments on the accuracy of financial reports. This requirement, they said, would require the examination of every transaction processed by a governmental entity.

Response. It was never intended that a hundred per cent examination would be routinely required. We believe this is clear from other provisions of the Attachment.

Comment. One commenter said it was not clear whether an auditor should automatically expand the scope of audit and secure additional data to support the disclosure of irregularities in the audit report.

Response. The Attachment does not provide for automatically expanding the scope of audit work. This is a matter that would have to be worked out between the auditor, the cognizant agency, and the recipient.

Comment. Several commenters recommended that the Attachment contain a definition of the term "independent."

Response. The Attachment incorporates by reference the *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions* published by the General Accounting Office. Chapter 3 of these standards discusses the standard of independence in some detail.

Comment. Several commenters said that additional audit costs would be incurred to achieve full compliance with the Circular. They suggested that the mechanism for funding these audits be addressed in the Attachment.

Response. Circular 74-4, "Cost principles for grants to State and local governments," establishes rules for determining allowable costs. This Circular provides that the cost of audits is allowable.

Comment. One commenter suggested that each grant application should contain a certification that arrangements will be made for the audits prescribed by the Circular. Failure to furnish an acceptable audit as determined by the cognizant agency could be a basis for denial of Federal funds.

Response. The grant application forms prescribed by Circular A-102 now contain an assurance that the applicant will comply with all the provisions of the Circular. We do not believe it is necessary to single out the audit requirements for a separate certification.

Comment. One commenter said the Attachment requires an audit every two years, and asked whether that meant

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that only every other year's transactions should be audited.

Response. It is the intent of the Circular that audits cover the period since the previous audit. If this is a two-year period, the audit should cover both years.

James T. McIntyre, Jr.,
Director.

Circular A-102

Attachment P—Audit Requirements

1. This Attachment establishes audit requirements for State and local governments, and Indian tribal governments that receive Federal assistance. It provides for independent audits of financial operations, including compliance with certain provisions of Federal law and regulation. The requirements are established to insure that audits are made on an organization-wide basis, rather than on a grant-by-grant basis. Such audits are to determine whether (a) financial operations are conducted properly, (b) the financial statements are presented fairly, (c) the organization has complied with laws and regulations affecting the expenditure of Federal funds, (d) internal procedures have been established to meet the objectives of federally assisted programs, and (e) financial reports to the Federal Government contain accurate and reliable information. Except where specifically required by law, no additional requirements for audit will be imposed unless approved by the Office of Management and Budget.

2. Definitions: "Cognizant agency" means the Federal agency that is assigned audit responsibility for a particular recipient organization by the Office of Management and Budget.

"Recipient organization" means a State department, a local government, an Indian tribal government, or a subdivision of such entities, that receives Federal assistance. It does not include State and local institutions of higher education or hospitals, which are covered by Circular A-110.

3. State and local governments and Indian tribal governments shall use their own procedures to arrange for independent audits, and to prescribe the scope of audits, provided that the audits comply with the requirements set forth below. Where contracts are awarded for audit services, the contracts shall include a reference to this Attachment.

4. The provisions of this Attachment do not limit the authority of Federal agencies to make audits of recipient organizations. However, if independent audits arranged for by recipients meet the requirements prescribed below, all

Federal agencies shall rely on them, and any additional audit work shall build upon the work already done.

5. Audits shall be made in accordance with the General Accounting Office *Standards for Audit of Governmental Organizations, Programs, Activities & Functions*, the *Guidelines for Financial and Compliance Audits of Federally Assisted Programs*, any compliance supplements approved by OMB, and generally accepted auditing standards established by the American Institute of Certified Public Accountants.

6. Audits will include, at a minimum, an examination of the systems of internal control, systems established to ensure compliance with laws and regulations affecting the expenditure of Federal funds, financial transactions and accounts, and financial statements and reports of recipient organizations.

These examinations are to determine whether:

a. There is effective control over and proper accounting for revenues, expenditures, assets, and liabilities.

b. The financial statements are presented fairly in accordance with generally accepted accounting principles.

c. The Federal financial reports (including Financial Status Reports, Cash Reports, and claims for advances and reimbursements) contain accurate and reliable financial data; and are presented in accordance with the terms of applicable agreements, and in accordance with Attachment H of this Circular.

d. Federal funds are being expended in accordance with the terms of applicable agreements and those provisions of Federal law or regulations that could have a material effect on the financial statements or on the awards tested.

7. In order to accomplish the purposes set forth above, a representative number of charges to Federal awards shall be tested. The test shall be representative of (1) the universe of Federal awards received, and (2) all cost categories that materially affect the award. The test is to determine whether the charges:

a. Are necessary and reasonable for the proper administration of the program.

b. Conform to any limitations or exclusions in the award.

c. Were given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

d. Were net of applicable credits.

e. Did not include costs properly chargeable to other federally assisted programs.

f. Were properly recorded (i.e., correct amount, date) and supported by source documentation.

g. Were approved in advance, if subject to prior approval in accordance with Circular 74-4.

h. Were incurred in accordance with competitive purchasing procedures, if covered by Attachment O of this Circular.

i. Were allocated equitably to benefiting activities, including non-Federal activities.

8. Audits usually will be made annually, but not less frequently than every two years.

9. If the auditor becomes aware of irregularities in the recipient organization, the auditor shall promptly notify the cognizant agency and recipient management officials above the level of involvement. Irregularities include such matters as conflicts of interest, falsification of records or reports, and misappropriation of funds or other assets.

10. The audit report shall include:

a. Financial statements, including footnotes, of the recipient organization.

b. The auditors' comments on the financial statements which should:

(1) Identify the statements examined, and the period covered.

(2) Identify the various programs under which the organization received Federal funds, and the amount of the awards received.

(3) State that the audit was done in accordance with the standards in paragraph 5.

(4) Express an opinion as to whether the financial statements are fairly presented in accordance with generally accepted accounting principles. If an unqualified opinion cannot be expressed, state the nature of the qualification.

c. The auditors' comments on compliance and internal control which should:

(1) Include comments on weaknesses in and noncompliance with the systems of internal control, separately identifying material weaknesses.

(2) Identify the nature and impact of any noted instances of noncompliance with the terms of agreements and those provisions of Federal law or regulations that could have a material effect on the financial statements and reports.

(3) Contain an expression of positive assurance with respect to compliance with requirements for tested items, and negative assurance for untested items.

d. Comments on the accuracy and completeness of financial reports and claims for advances or reimbursement to Federal agencies.

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e. Comments on corrective action taken or planned by the recipient.

11. Work papers and reports shall be retained for a minimum of three years from the date of the audit report unless the auditor is notified in writing by the cognizant agency of the need to extend the retention period. The audit workpapers shall be made available upon request to the cognizant agency or its designees and the General Accounting Office or its designees.

12. The Office of Management and Budget will work with Federal agencies and State and local governments to assure that recipient audits are made in accordance with the standards set forth in paragraph 5.

13. The Office of Management and Budget will designate cognizant agencies for major recipient organizations.

14. The cognizant agency shall have the following responsibilities:

a. Obtain or make quality assessment reviews of the work of non-Federal audit organizations, and provide the results to other interested audit agencies. (If a non-Federal audit organization is responsible for audits of recipients that have different cognizant audit agencies, a single quality assessment review should be arranged.)

b. Assure that all audit reports of recipients that affect federally assisted programs are received, reviewed, and distributed to appropriate Federal audit officials. These officials will be responsible for distributing audit reports to their program officials.

c. Whenever significant inadequacies in an audit are disclosed, the recipient organization will be advised and the auditor will be called upon to take corrective action. If corrective action is not taken, the cognizant agency shall notify the recipient organization and Federal awarding agencies of the facts and its recommendation. Major inadequacies or repetitive substandard performance of independent auditors shall be referred to appropriate professional bodies.

d. Assure that satisfactory audit coverage is provided in a timely manner and in accordance with the provisions of this attachment.

e. Provide technical advice and act as a liaison between Federal agencies, independent auditors, and recipient organizations.

f. Maintain a followup system on audit findings and investigative matters to assure that audit findings are resolved.

g. Inform other affected audit agencies of irregularities uncovered. The audit agencies, in turn, shall inform all appropriate officials in their agencies. State or local government law

enforcement and prosecuting authorities shall also be informed of irregularities within their jurisdiction.

15. Recipients shall require subrecipients that are State and local governments or Indian tribal governments to adopt the requirements in paragraph 1. through 11. above. The recipient shall ensure that the subrecipient audit reports are received as required, and shall submit the reports to the cognizant agency. The cognizant agency will have the responsibility for these reports described in paragraph 14.

[FR Doc. 79-32579 Filed 10-19-79; 8:45 am]

BILLING CODE 2110-01-M

APPENDIX IV

APPENDIX IV

OFFICE OF MANAGEMENT AND BUDGET CIRCULARS

Circular A-102, "Uniform administrative requirements for grants-in-aid to State and local governments"

Circular A-110, "Grants and agreements with institutions of higher education, hospitals and other non-profit organizations"

Circular 74-4, "Cost principles applicable to grants and contracts with State and local governments"

Circular A-21, "Cost principles for educational institutions"

[FR Doc. 80-9901 Filed 4-1-80; 8:45 am]

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