



FRESNO COUNTY ECONOMIC OPPORTUNITIES COMMISSION

INTERNAL AUDIT OFFICE

POLICIES AND PROCEDURES MANUAL

December 13, 2010

INTERNAL AUDIT POLICIES AND PROCEDURES

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1. ORGANIZATION AND POLICY

1.1 PURPOSE

This document establishes the official policies and procedures for the Internal Audit Office within the Fresno County Economic Opportunities Commission (FCEOC). It explains the purpose, authority and responsibility of the internal audit function and the duties of the Internal Audit Office.

1.2 MISSION

The mission of the Internal Audit Office is to provide quality audit services in an independent, objective manner to assure financial and operational integrity, accountability, efficiency, effectiveness, and compliance with laws and regulations and agency policies and procedures.

1.3 INDEPENDENCE

Independence is an essential element of objectivity. It is imperative that Internal Auditors maintain independence in appearance as well as in fact. Independence could be compromised if Internal Auditors participate directly in the development, installation, preparation or reconstruction of accounting systems, data, or records, or by engaging in activities that would normally be reviewed by Internal Auditors. Thus, Internal Auditors will serve only in an advisory capacity in performing their engagements.

To provide for independence, the Chief Audit Executive will communicate and interact directly with the Executive Director for daily supervision and the Audit Committee, a sub-committee of the Board of Commissioners for direction. The Chief Audit Executive will confirm to the board, at least annually, the organizational independence of the internal audit activity.

1.4 RESPONSIBILITY

The Internal Audit Office has responsibility to:

- Develop a flexible, risk-based annual plan of Internal Audit Office work.
- Implement the approved annual audit plan.
- Evaluate governance and risk management related to operations at FCEOC consistent with Internal Audit Policies and Procedures and with the approved Annual Audit Plan. This may include evaluating significant new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Report significant issues related to governance and risk management related to operations at FCEOC, including potential improvements, and provide information concerning such issues all the way through to resolution.
- Maintain a professional Internal Audit staff with sufficient knowledge, skills, and other competencies to meet the requirements of the policies and procedures stated in this document.
- Periodically provide information to the Executive Director and Audit Committee on Internal Audit Office activities and results relative to the Annual Audit Plan, as well as the sufficiency of the Internal Audit Office resources.
- Inform the Executive Director and Audit Committee of significant emerging trends and successful practices in Internal Auditing.

- Report the most critical issues to the Audit Committee, along with management's progress toward resolving them. Critical issues typically have a reasonable likelihood of causing substantial financial or reputation damage to FCEOC. For complex issues, the responsible manager may participate in the discussion. Such reporting is critical to ensure the function is respected, that the proper "tone at the top" exists in the organization, and to expedite resolution of such issues.

Opportunities for improving FCEOC operations may be identified by the Internal Audit Office. They will be communicated to the appropriate levels of management.

Internal Audit has no direct responsibility or any authority over any of the activities or operations it reviews. Internal Audit is a managerial control that functions by measuring and evaluating the effectiveness of other controls. Management is not relieved of any assigned responsibilities because Internal Auditors perform the evaluative reviews with which they have been charged.

1.5 AUDIT PLAN

The Internal Audit Office has responsibility to develop a flexible, risk-based annual plan of work, considering the input of management, and submit that plan and significant interim changes to the Executive Director and Audit Committee for review and approval. The plan should include but not be limited to the following items:

- Compliance Audits
- Performance Reviews
- Unannounced Audits
- External Audit Assistance
- Fraud, Waste and Abuse Investigations

In order to determine a list of appropriate audits for the year, the Internal Audit Office begins by identifying possible audits. These items are then evaluated for the risks and possible benefits that are associated with each one. Priority is then given to higher-risk and higher-benefit projects, required audits and Board requests, subject to the skills and resources of the Internal Audit Office.

1.6 SCOPE

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. This enables the Internal Audit Office to determine whether the agency's risk management, control, and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Financial, managerial, and operating information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Agency assets are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Recommendations for improving management control, accountability shall be made to the appropriate level of management.

Internal Audit functions in an advisory capacity; it does not have authority to make operating decisions or to direct anyone to take action.

1.7 AUTHORITY

Management of the Internal Audit Office is authorized to:

- Have unrestricted access to all programs, records, property, and personnel as needed.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to fulfill its mission and responsibilities.
- Obtain the necessary assistance of personnel in FCEOC programs when needed.

Management and staff of the Internal Audit Office are **NOT** authorized to:

- Perform any operational duties for FCEOC.
- Make management decisions external to the Internal Audit Office. FCEOC Directors and management have primary responsibility for control of FCEOC.
- Initiate or approve fiscal transactions external to the Internal Audit Office.
- Direct the activities of any FCEOC employee not employed by the Internal Audit Office, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

1.8 STANDARDS OF AUDIT PRACTICE

The Internal Audit Office is guided by FCEOC's Code of Ethics and will meet or exceed the Standards for the Professional Practice of Internal Auditing established by The Institute of Internal Auditors.

2. TYPES OF AUDIT SERVICES

The following are general descriptions of the types of services provided by the Internal Audit Office. The annual audit plan can include any combination of these types.

2.1 COMPLIANCE AUDITS

The Internal Audit Office may conduct compliance audits, which are generally performed to ensure compliance with Federal or State laws and/or requirements of grant agreements. These can include reviews of management practices and financial data to determine the extent to which a unit complies with applicable laws, government regulations and standards, contracts, and policies and procedures.

2.2 PERFORMANCE REVIEWS

The Internal Audit Office may conduct performance audits in order to provide an independent assessment of the performance of the organization, a program or activity. Performance audits provide information to improve risk management and control systems within the various areas by evaluating compliance with policies and procedures. Performance audits include, but are not limited to, reviews of program procedures and operations to determine whether:

- Duties and responsibilities are being performed in the most efficient and economical (cost effective) manner
- Activities are properly authorized by appropriate personnel
- Management has the capacity to ensure compliance with applicable laws, regulations, contracts and policies
- Operations actually conform in all material respects to applicable laws, government regulations and standards, contracts, and policies and procedures.

2.3 UNANNOUNCED AUDITS

The Internal Audit Office may conduct unannounced audits, which are an effective way to prevent or detect fraud. These audits could include reviews of petty cash, incentive and bus tokens, cash receipts/deposits, fixed asset additions/deletions, employee verification, and operating parts and supplies inventory.

2.4 EXTERNAL AUDIT ASSISTANCE

The Internal Audit Office may provide audit assistance to the external auditors/monitors and FCEOC's Finance and Accounting Office during any FCEOC external audits/monitoring visits. Internal Audit will review all resulting management letter comments to determine if there is any impact upon the annual Internal Audit Plan.

2.5 FRAUD, WASTE AND ABUSE INVESTIGATIONS

The Internal Audit Office will investigate all credible fraud, waste and abuse tips that could affect the organization and that can be handled within the expertise of the Internal Audit staff. However, allegations of a serious criminal act (e.g., theft, robbery, assault, etc.) should be promptly reported to the appropriate officials and proper law enforcement agency. Refer to Policies and Procedures #4 Whistleblower Policy for further information.

2.6 SPECIAL REVIEWS

The Internal Audit Office may conduct special reviews, which are audit activities that result from requests to Internal Audit from the Audit Committee, the Executive Director or other management. Special reviews are carried out in conformance with the specifications and concerns of the requestor. These include reviews and analyses of particular areas of a program's operation to provide an independent appraisal of its effectiveness, efficiency, adequacy of internal control and compliance with appropriate regulations. For example, special reviews might be undertaken to consult with management on specific financial or performance questions.

2.7 REQUESTS FOR INTERNAL AUDIT SERVICES

Program Directors or Managers requiring the services of the Internal Audit Office should direct all such requests, preferably in writing, to the Internal Audit Office, Executive Director, or Audit Committee and it will be determined whether the requested assistance can be provided and when it can be scheduled.

3. METHOD OF OPERATION AND DOCUMENTATION

The Internal Audit Office plans to use the following procedures when conducting most reviews/audits; however, performing all steps for every review/audit would be impractical, for instance, audit reports will not be issued for reviews that are performed weekly. The practicality of performing all steps will be determined by the Internal Audit Manager.

3.1 WORKING PAPERS

The Internal Audit Office must document relevant information (on paper or in electronic format) to support the conclusions and results of engagements; therefore, Internal Auditors will prepare working papers whenever an engagement is being conducted. Working papers document the information obtained, the analyses made, and the support for the conclusion and engagement results. Internal audit management reviews the prepared working papers. Engagement working papers generally:

- Aid in the planning, performance, and review of engagements
- Provide the principal support for engagement results
- Document whether engagement objectives were achieved
- Support the accuracy and completeness of the work performed
- Provide a basis for the internal audit activity's quality assurance and improvement program
- Facilitate third-party reviews

The organization, design, and content of engagement working papers depend on the engagement's nature and objectives and the organization's needs. The Internal Audit Office must maintain a good system of filing/indexing for working papers, so that they can be easily located if needed.

3.2 AUDIT REPORT

Upon completion of fieldwork, Internal Audit will prepare an original draft of the audit report. The report will communicate to management of the program audited, in a clear and concise manner, the results of the audit or review. The format of the report will depend upon the type of audit performed. When preparing and completing the Audit Report, the Internal Audit Office will follow the steps listed below:

- The Internal Audit Office will review the original draft and make any changes deemed appropriate.
- A copy of the resulting draft normally will be submitted to appropriate management (usually management of the program that was audited).
- Internal Audit and appropriate management may hold a conference to discuss the draft report. Changes to the draft report may result from this "exit" conference. In some instances, holding an "exit" conference may not be possible or may not be an efficient use of time. In these cases, management will be responsible for contacting the Internal Audit Office with any questions, comments or concerns that they may have.
- Official written responses to specific audit report recommendations will be requested from appropriate management to be included in the final and issued version of the report. The responses should include the degree of agreement or acceptance of each recommendation. The preferred responses are:
 - "We concur." Management is in full agreement with the recommendation;
 - "We partially concur." Management is in agreement with a portion of the recommendation;
 - "We concur with reservations." Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved; and

- "We do not concur." Management is in total disagreement with the recommendation.
- Management is encouraged to provide an explanation in support of the positions taken, if considered necessary.
- Responses should be accompanied by a target implementation date and the individual or position responsible for implementation.

Two weeks are usually allowed for management to provide written responses to the recommendations. If management does not appear to make a good faith effort to provide responses, the final version of the report may be issued without responses at the discretion of the Internal Audit Office.

3.3 AUDIT REPORT DISTRIBUTION

The normal report distribution will be to the Audit Committee (at the next meeting), the Executive Director and senior program management. Any other programs or other entities identified in the report may be included in the distribution.

3.4 AUDITS FOLLOW-UP

Within twelve months after the issuance of an audit report, the Internal Audit Office shall initiate a follow-up review to determine the extent of actions subsequently taken by management in response to the findings and recommendations included in the report. The distribution of the follow-up report shall be the same as that of the original report.

3.5 RECORDS DISPOSITION

The Internal Audit Office shall retain for the required number of years a complete file of each audit report and each report of other examinations, investigations, surveys and reviews made under its authority in accordance with any applicable Federal and/or contract regulations. The file should include audit working papers and other supportive material directly pertaining to the report. Files which contain confidential personnel information will be kept secure.

4. WHISTLEBLOWER POLICY

This policy governs reporting and investigation of allegations of suspected improper accounting activities. Acts of fraud, waste, and abuse are considered a deliberate act or failure to act with the intention of obtaining an unauthorized benefit. Examples of such conduct include, but are not limited to:

- Forgery or alteration of documents;
- Unauthorized alteration or manipulation of computer files;
- Fraudulent financial reporting;
- Pursuit of a benefit or advantage in violation of FCEOC's Policies and Procedures;
- Misappropriation or misuse of FCEOC's resources, such as funds, supplies, or other assets;
- Authorizing or receiving compensation for goods not received or services not performed; and
- Authorizing or receiving compensation for hours not worked

4.1 OBJECTIVE

Fresno County Economic Opportunities Commission (FCEOC) is committed to operating in compliance with all applicable laws, rules and regulations, including those concerning accounting and auditing, and prohibits fraudulent practices by any of its board members, officers, or employees. This policy serves to outline procedures for employees to report actions that an employee reasonably believes violate a law or regulation or that constitutes fraud. This policy applies to any matter which is related to FCEOC's business. In addition, it is the objective of FCEOC to establish a policy that protects any person reporting organizational wrongdoing, from retaliation, harassment, or adverse employment consequences.

4.2 REPORTING AND RESPONSIBILITY

Each employee of FCEOC has an obligation to report in accordance with this Whistleblower Policy any act believed to violate a law or regulation or constitute fraud.

4.3 ACTING IN GOOD FAITH

Anyone reporting a concern must act in good faith and have reasonable grounds for believing the information reported indicates a violation of the law, or constitutes an inappropriate accounting or financial practice. The act of making allegations that prove to be unsubstantiated, and that prove to have been made maliciously, recklessly, or with the foreknowledge that the allegations are false, will be viewed as a serious disciplinary offense and may result in discipline, up to and including termination of employment.

4.4 REPORTING CONCERNS

FCEOC employees with any concerns or information pertaining to fraud, waste, or abuse are encouraged to speak with someone who can address their concerns properly. In most cases their supervisor is in the best position to address a concern. However, if the employee is not comfortable speaking with the supervisor about the concern, the employee is encouraged to speak with someone in Internal Audit, Human Resources or anyone in management with whom they are comfortable in approaching. Supervisors and managers MUST report suspected concerns to any/all of the following: Audit Committee Chair, Executive Director or the Internal Audit Office. However, allegations of a serious criminal nature or allegations determined to be beyond the scope of Internal Audit will be forwarded to the proper law enforcement agencies or appropriate FCEOC authority for investigation. The California State Attorney General's Whistleblower Hotline is also

available to employees who may not feel comfortable contacting Internal Audit or a member of management directly.

Internal Audit Office

Susan Shiomi	(559)263-1053	susan.shiomi@fresnoeoc.org
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California State Attorney General’s Whistleblower Hotline

1-800-925-5225

4.5 HANDLING OF REPORTED VIOLATIONS

All reports will be addressed and investigated by Internal Audit. Appropriate corrective action will be recommended to the board of commissioners, if warranted by the investigation.

4.6 NO RETALIATION

This Whistleblower Policy is intended to encourage and enable employees to raise concerns within the organization for investigation and appropriate action. With this goal in mind, no employee who, in good faith, reports a concern shall be subject to retaliation or adverse employment consequences related to whistleblower complaints. Moreover, an employee who retaliates against someone who has reported a concern in good faith is subject to discipline up to and including termination of employment.

4.7 CONFIDENTIALITY

All reports on concerns, and investigations pertaining thereto, shall be kept confidential to the extent practical. Disclosure of reports of concerns to individuals not involved in the investigation will be viewed as a serious disciplinary offense and may result in discipline, up to and including termination of employment.

5. SPECIFIC AUDIT PROCEDURES

5.1 COMPLIANCE AUDITS

Election of Commissioners Review

Frequency: Annually

A review of the election of commissioners should be completed annually, provided that there is adequate staffing, time and resources.

The review of the election of commissioners ensures that:

- Elections occur in a timely manner
- Voters are properly informed of election
- A time/opportunity for nominations exists
- Votes are tallied accurately
- Elected Officials reside in the appropriate target area
- Registered Voters reside in the appropriate target area

Program Audits

Frequency: To be determined

Internal Audit staff will perform examinations of programs and test compliance with terms, provisions, and requirements of grant agreements. The frequency of conducting program audits will be based upon adequacy of staffing, time, and resources. Formal steps listed in Policy and Procedures 3.1-3.5 are followed.

The review of the review of programs ensures that:

- Programs are operating efficiently
- Programs have sufficient controls in place to prevent fraud, abuse or waste.
- Program reports are completed accurately and timely
- Grant expenditures are allowable, allocable, and reasonable
- Participants/client files are completed accurately and timely
- Federal Grants comply with OMB A-133 compliance requirements

5.2 PERFORMANCE REVIEWS

Bank Reconciliations

Frequency: Quarterly

Bank reconciliations are completed monthly by the Finance Office to ensure that no material differences between the bank balance and the general ledger balance exist. The Internal Audit Office will review the bank reconciliations quarterly to ensure that:

- Variances are reasonable
- Reconciliations are completed in a timely manner
- Balances reflected on the reconciliations are accurate

Additionally, any unusual or material reconciling items will be investigated; reconciling items should be traced to supporting documentation. Explanations of these types of items must be reasonable and complete.

Payroll Timesheet Review

Frequency: Reviews are completed every pay period, and each program is reviewed at least once each quarter.

Each pay period, two to three programs' timesheets are selected for review. Timesheets are reviewed for:

- Accuracy of hours calculated
- Appropriate signatures (employee, management, etc.)
- Agreement to the Employer Contribution Reports (ECR)

All exceptions should be tagged and reported to Payroll.

Payroll Review

Frequency: Annually or as needed

A review of payroll should be completed annually, provided that there is adequate staffing, time and resources. Formal steps listed in Policy and Procedures 3.1-3.5 are followed.

The review of payroll includes audits of the following areas:

- The proper functioning of payroll and personnel processes and operations
- Calculation of earnings, special payments, employee benefits and employee taxes
- Compliance with applicable federal/state laws relating to employment taxes, tax and non-tax reporting requirements
- Accounting for payroll transactions (properly classified and posted to GL)

Payroll Mileage Review

Frequency: Reviews are completed every pay period with a total of fifty mileage sheets reviewed each quarter.

25 mileage sheets are haphazardly selected from the timesheets being reviewed. Mileage and expenses calculated are traced from the mileage sheet and agreed to the ECR.

25 expense reimbursements for mileage are haphazardly selected from the ECR. The corresponding mileage sheets are located and mileage and expenses calculated are traced from the ECR and agreed to the mileage sheet.

All exceptions should be tagged and reported to Payroll.

AP Check Review

Frequency: Weekly

All checks over \$5000 are reviewed, and an additional 25 checks are haphazardly selected for review. Checks are reviewed to ensure the following:

- All checks greater than \$5000 have a second signature
- All checks on the check listing are accounted for
- Proper support is attached as backup for each check. Support includes invoices, contract agreements, bids, etc.
- Receipt of goods or performance is indicated

All exceptions should be tagged and reported to the AP Manager.

AP EFT Review

Frequency: Every other week

All EFTs over \$5000 are reviewed, and an additional 25 EFTs are haphazardly selected for review. EFTs are reviewed to ensure the following:

- Proper support is attached as backup for each EFT. Support includes invoices, contract agreements, bids, etc.
- Receipt of goods or performance is indicated
- Vendor name on the EFT agrees to the attached EFT backup
- Account and Project coding are appropriate
- Invoices/contracts are authorized by appropriate individuals, and the invoice/contract amount is within the authorized signer's limit

All exceptions should be tagged and reported to the AP Manager.

Fixed Assets Inventory

Frequency: Every other year

Once every two years, all fixed assets should be observed. The observation ensures that recorded assets exist, that fixed assets which have been disposed of get removed from the system and that any unrecorded assets get entered into the fixed asset system.

The Internal Audit Office will obtain the fixed asset inventory listing from Financial Edge prior to observing fixed assets. The fixed asset inventory list includes information about the fixed assets such as location, description, tag number, date of acquisition, cost and last date of observation. The location, description and tag number on the inventory list is then matched to the physical asset, and any differences are noted.

After an asset is observed, the fixed asset system is updated to reflect this. The auditor will enter into Financial Edge the date and location where the asset was observed. Additionally, any changes to fixed assets will be updated in Financial Edge at this time, such as a change in location. For any assets that can not be observed/located, a follow-up review and inquiry should be performed to determine if there is a reasonable explanation for the lack of observation, such as disposal of the asset. Any findings will be reported in a memo to the Internal Audit Manager, Finance Director, or Executive Director.

Accounts Payable Review

Frequency: Annually or as needed

A review of accounts payable should be completed annually, provided that there is adequate staffing, time and resources. Formal steps listed in Policy and Procedures 3.1-3.5 are followed.

The review of accounts payable includes audits of the following areas:

- Determine if adequate controls exist to provide reasonable assurance that payments cannot be made to an incorrect vendor
- Determine if adequate controls exist to provide reasonable assurance that payment of invoices are made in a timely manner to the vendor
- Determine if adequate controls exist to provide reasonable assurance that correct payment is made to the vendor

- Determine if adequate controls exist to provide reasonable assurance that duplicate payments cannot be made to the vendor

Accounts Payable New Vendor Review

Frequency: Twice a year

A review of the AP New Vendor process should be completed twice a year. The set up process of new vendors and related internal controls is reviewed. The review ensures that appropriate documentation is obtained for each new vendor and that only authorized personnel have the ability to set up/delete/edit vendors in the system.

Working papers are completed in order to record the processes and documents that are reviewed.

Information Systems Audits

The Internal Audit Office may conduct information systems audits, which determine whether existing or new computer applications and hardware function in an accurate and efficient manner, and include adequate internal controls. These audits could include reviews of general controls which affect all computer applications. Examples include computer security, disaster recovery, program change controls and quality control procedures.

5.3 UNANNOUNCED AUDITS

Petty Cash Review

Frequency: Twice a year

A review of petty cash is performed twice a year for all custodians having a balance of \$100 or more in petty cash. The petty cash review consists of counting cash and ensuring that receipts are retained and expenditures are appropriate. In addition to counting and documenting the amount of petty cash, the internal auditor will keep a record of all receipts on hand making sure to include the amount, date and location where the petty cash was spent. After the petty cash form is filled out completely, signatures from both the internal auditor and custodian are required.

After all petty cash counts are completed, the petty cash forms are reviewed for any significant findings. Findings include a large variance between the cash counted and the amount recorded in the general ledger, missing receipts, cash not being kept in a secure location or any other item the internal auditor deems significant. Any findings are reported in a memo directed to the Internal Audit Manager or Executive Director.

5.4 EXTERNAL AUDIT ASSISTANCE

Program-Specific Audits (SACC, SOUL, Transit)

Frequency: Annually

Internal Audit will provide assistance to the external auditors conducting the annual program-specific audits. This assistance includes performing account analysis and maintaining working papers.

The Internal Audit Office may be responsible for any of the following:

- Reviewing participant files for completeness and accuracy
- Supplying fixed asset information
- Gathering documentation requested by the external auditor
- Reviewing External Audit Program-Specific Audit Drafts

Single-Audit Audit Schedules

Frequency: Annually

Internal Audit will provide assistance to the external auditors conducting the annual Single Audit (OMB A-133). This assistance includes performing account analysis and maintaining working papers.

The Internal Audit Office may be responsible for any of the following:

- Review and analyze program abstracts provided by the Finance Office
- Prepare the Schedule of Federal Awards
- Prepare Debt Covenant Testion (if needed)
- Prepare Debt Service Coverage Ratio (if needed)
- Prepare and analyze account schedules
- Prepare the Schedule of Rents
- Prepare the Accounts Receivable Analysis
- Prepare the Account Confirmation Letters
- Prepare Fixed Asset Rollforward report
- Gather documentation requested by the external auditor
- Prepare the Federal Audit Clearinghouse form SF-SAC for submission
- Review External Auditor's Single Audit Draft
- Prepare the distribution list for the Single Audit

The Internal Audit Office plans to develop additional audit procedures in the future based upon organizational needs, management requests and workload of the Internal Audit Office. All additional procedures will be added to Section 5. Furthermore, Internal Audit reserves the right to update any of the specific audit procedures (included in Sec. 5) as needed.