

COMMUNITY DEFENDER ORGANIZATIONS  
FINANCIAL AND COMPLIANCE  
AUDIT PROGRAM

General Procedures – Audit Program

CDO \_\_\_\_\_ Statement of Financial Position \_\_\_\_\_

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| <p><b>AUDIT OBJECTIVES</b></p> <p>The objectives in the general program are naturally general in nature and are not necessarily related to specific financial statement assertions.</p> <p>A. The audit has been properly planned.</p> <p>B. Consideration has been given to the audit and reporting requirements of funding sources, including the need for a financial audit in accordance with GAO <i>Government Auditing Standards</i>.</p> <p>C. Schedules prepared by client personnel for audit use are clerically accurate.</p> <p>D. The risk of management override of controls has been adequately addressed.</p> <p>E. The organization’s accounting records are clerically accurate, and the budget or budgets appropriately prepared and approved.</p> <p>F. There has been a search for and evaluation of (1) commitments and contingencies, including requests from legal counsel; (2) subsequent events; and these matters are adequately disclosed or recorded in the financial statements, if appropriate.</p> <p>G. Written representations have been obtained from management.</p> <p>H. Results of audit procedures, including findings and questioned costs, have been evaluated.</p> <p>I. Financial statements are presented in accordance with accounting principles prescribed by the Administrative Office of the U.S. Courts.</p> <p>J. The effect on the auditor’s report of OCBOA departures, scope limitations, other auditors, or other matters has been evaluated.</p> |                     |                    |

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| <p>K. Reportable conditions in internal control, findings and questioned costs, fraud or illegal acts, and other matters related to the conduct of the audit have been communicated to the appropriate parties.</p> <p>L. Staff assistants have been properly supervised.</p> <p>M. Audit workpapers and the resulting financial statements have been reviewed in accordance with firm policies.</p> <p>N. The firm’s quality control procedures for independence, integrity, and objectivity; client and engagement acceptance and continuance; personnel management; and engagement performance have been followed.</p> <p><b>AUDIT PLANNING PROCEDURES</b></p> <p>1. Obtain and become knowledgeable of the following documents:</p> <ul style="list-style-type: none"> <li>• Federal Defenders Operations Manual (FDOM)</li> <li>• Criminal Justice Act</li> <li>• Guidelines for Administration of the Criminal Justice Act</li> <li>• Guide to Judiciary Policies and Procedures</li> <li>• Standards for the Monitoring and Evaluation of Providers of Legal Services to the Poor</li> <li>• Grant and Conditions</li> </ul> <p>2. Consider any significant risks identified in the acceptance procedures when updating the “Nonprofit Organization Audit Planning Form”.</p> <p>3. Consider whether there are any significant changes in the nature of the organization’s activities; management; board members; legal counsel; financial condition; grant compliance; litigation status; control environment or activities; fraud indicators; management attitude toward, or pressures on, the auditors; scope of the engagement; or other internal or external conditions that should cause us to notify the AO Office of Audit.</p> |                     |                    |

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| <p>4. Review correspondence files, prior year audit workpapers, permanent files, financial statements, and auditor’s reports (including any audit or relevant monitoring reports from DSD. Also, read quarterly reports.</p> <ul style="list-style-type: none"> <li>▪ Request the CDO to assemble the following items before the start of fieldwork: <ul style="list-style-type: none"> <li>• Organization charts.</li> <li>• List of board members and members of management, including name, address, and position.</li> <li>• Minutes of board of director’s meetings.</li> <li>• Charts of accounts and accounting manual.</li> <li>• General ledger, cash receipts and disbursements books, payroll journal, and general journal (as applicable).</li> <li>• Personnel files and employee time sheets.</li> <li>• Correspondence with, or reports to, grantor and cognizant or oversight agencies including quarterly reports.</li> <li>• Budgets, including program budgets, and related approvals and amendments.</li> <li>• CJA Grant and Conditions including Appendix and Supplements.</li> <li>• Contracts with consultants, lease agreements, liability insurance policies, etc.</li> <li>• Name, address, and account numbers of all bank accounts.</li> <li>• Bank reconciliations and related bank statements and canceled checks.</li> <li>• List of major vendors cumulative in excess of \$5,000.</li> </ul> </li> </ul> |                     |                    |

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| <ul style="list-style-type: none"> <li>• Paid bills file.</li> <li>• IRS Form 5500 Annual Report of Employee Benefits Plan Form 990.</li> <li>• IRS Form 990 Return of Organization Exempt from Income Tax.</li> <li>• Policy and procedures manual.</li> <li>• Personnel and travel policies.</li> <li>• Cumulative property inventory.</li> <li>• Quarterly reports prepared for DSD.</li> </ul> <p>Fax or email this request along with arrival information to CDO.</p> <ol style="list-style-type: none"> <li>5. Review the Grants &amp; Conditions including Additional Information and DSD memorandums pertaining to current fiscal year operations. Also review manuals, procedures, board minutes to become familiar with grantee policies, procedures and operations.</li> <li>6. Determine the extent of involvement, if any, of other audit firms, consultants, or specialists. If other audit firms perform efforts, see Grants &amp; Conditions Clause 8 – If our firm is not the principal auditor (for Detroit and Philadelphia only), consider inquiring of the principal auditor about matters that may be significant to our audit. See the “Inquiry of Principal Auditor by Other Auditor”.</li> <li>7. Conduct the entrance conference at the CDO. Discuss the type, scope, and timing of the audit with executive director and administrative officer. Also, discuss adequacy of working space for the audit team, access to client records, and assistance, if any, to be furnished by the CDO.</li> </ol> |                     |                    |

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| <p>8. Obtain an understanding of the organization, its internal control, and its audit risk factors (including the risk of material misstatement due to fraud). Update the internal control questionnaires and memo in the permanent file (Grants &amp; Conditions, Clause 7).</p> <p>a. Hold a discussion among engagement team members about the risks of material misstatement due to fraud.</p> <p>SAS No. 99 requires an engagement team discussion. The engagement team discussion should include brainstorming about how and where the organization’s financial statements might be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the organization could be misappropriated. The discussion also should include an emphasis on the importance of exercising professional skepticism throughout the audit.</p> <p>b. Update the “Nonprofit Organization Audit Planning Form.”</p> <p>c. Make inquiries of management and other employees about the risks of fraud. Document the inquiry procedures.</p> <p>9. Apply preliminary analytical procedures by (a) comparing account balances for the current period to similar amounts in the prior period and (b) comparing budget to actual.</p> <p>a. Identify unusual or unexpected balances or relationships.</p> <p>b. Consider whether matters identified have other financial statement and audit planning implications, such as whether they indicate a higher risk of material misstatement due to error.</p> <p>c. Consider specific risks identified in preparing audit programs.</p> <p>10. Modify the standard audit programs on each significant area covered by the audit.</p> |                     |                    |

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| <p>a. Consider whether the nature, timing, and extent of auditing procedures reflected in the audit programs appropriately address the assessed risk of material misstatement (including the risk of material misstatement due to fraud.</p> <p>b. Ensure that the selection of audit procedures incorporates an element of unpredictability.</p> <p>Practical Considerations:</p> <ul style="list-style-type: none"> <li>• Incorporating an element of unpredictability from year to year in the selection of audit procedures is an overall response to fraud risks that should be performed in every audit.</li> <li>• Auditors may incorporate an element of unpredictability by, for example, altering the timing of tests, changing sampling methods, performing procedures at different locations or on an unannounced basis, performing a different combination of analytical procedures and substantive tests of details, or testing account balances and assertions otherwise considered immaterial or low risk.</li> </ul> <p><b>GENERAL AUDIT PROCEDURES</b></p> <p>Trial Balance, Budget, and Journal Entries</p> <p>1. Prepare a trial balance and other schedules and analyses by using the following:</p> <ul style="list-style-type: none"> <li>a. Trace amounts to the general ledger.</li> <li>b. Foot and crossfoot totals.</li> <li>c. Trace prior period balances to the closing balances in the prior period’s audit workpapers.</li> </ul> <p>2. Review the budget approved by the committee. Determine</p> |                     |                    |

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| <p>that the budget is for the financial statements to be audited. Highlight matters relevant to specific audit areas. Obtain copies for the current or permanent workpaper files.</p> <ol style="list-style-type: none"> <li>a. Review budget to actual comparisons and consider whether the budget has been violated by overexpenditure. Obtain the aggregate of transfers between budget categories. Ensure that the aggregate of transfers between budget categories do not exceed 15% of the organizations total fiscal year grant approved by the Defender Services Committee (Grants &amp; Conditions, Clause 4). Note – Fringe benefits cannot exceed 3% of the FPDO average without specific committee approval. See payroll section of the Audit Program. Discern the FPDO average and determine whether the committee approved budgeted has been exceeded.</li> <li>b. Review correspondence with AO with respect to any budget changes.</li> </ol> <p>3. Examine journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.</p> <ol style="list-style-type: none"> <li>a. Scan the general ledger and select at least 3 specific journal entries for testing. Document the items selected.</li> <li>b. Examine the related accounting records and supporting documents or ensure that selected items have been examined as part of testing performed in individual audit programs.</li> <li>c. Identify and consider the appropriateness of significant adjustments to general ledger balances (such as post-closing entries, consolidating adjustments, report combinations, and reclassifications) made in the preparation of financial statements. Examine supporting documentation or agreement amounts to the audit workpapers where tested.</li> <li>d. Make inquiries of employees involved in the financial reporting process about the possibility of unusual or</li> </ol> |                     |                    |

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| <p>improper journal entries.</p> <p>Commitments and Contingencies</p> <p>4. Perform a search for commitments and contingencies.</p> <p>a. Review the results of audit procedures applied to specific accounts or other general procedures for the existence of significant commitments or contingencies.</p> <p>b. Inquire of management about the possibility of unrecorded contingencies or commitments such as:</p> <p>(1) Pending or threatened litigation or unasserted claims.</p> <p>(2) Communications from AO regarding violations or possible violations of grant requirements or other laws or regulations.</p> <p>(3) Possible claims for disallowed costs or expenditures under the grant or other third-party reimbursement arrangement, such as unresolved questioned costs.</p> <p>(4) Purchase commitments.</p> <p>(5) Long-term leases with required fixed payments for several years.</p> <p>(6) IRS examinations in progress related to tax-exempt status or taxes on unrelated business income.</p> <p>c. Determine whether any commitments or contingencies were highlighted in the minutes.</p> <p>d. Determine whether any commitments or contingencies were highlighted in the Grants and Conditions, contracts, loan agreements, and other documents.</p> <p>e. Obtain a legal representation letter from the client's attorneys if indications of outside counsel exists.</p> <p>5. Summarize in the workpapers information about significant</p> |                     |                    |

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| <p>commitments or contingencies for disclosure in the notes to the financial statements.</p> <p>Subsequent Events</p> <p>6. Perform a review for subsequent events to the date of the auditor’s report (the completion of fieldwork). Procedures would include, but not be limited to, the following.</p> <ul style="list-style-type: none"> <li>a. Scan cash receipts records for the subsequent period for evidence of significant sales of fixed assets, etc.</li> <li>b. Scan cash disbursements for the subsequent period for significant or unusual payments.</li> <li>c. Read the minutes for meetings held subsequent to the date of the initial reading of minutes at the start of the engagement for possible subsequent events. Also read any newspapers, etc., published by the organization in the period after the statement of financial position date. Obtain explanations for any significant variations from prior financial statements or budgets.</li> <li>d. Inquire of management about the existence of material subsequent events such as plans to merge with another nonprofit organization, loss of grant funding or potential disallowances, loss or suspension of tax-exempt status, losses or impairment to assets, etc. Inquire about the status of items unresolved at the statement of financial position date.</li> <li>e. Obtain an understanding of the business purpose of significant subsequent events.</li> <li>f. Summarize in the workpapers information about subsequent events for disclosure in the notes to the financial statements.</li> </ul> <p>7. Obtain a written representation letter from management.</p> <p>8. Draft the auditor’s report on the financial statements after</p> |                     |                    |

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| <p>considering any departures from OCBOA scope limitations, going-concern uncertainties, other auditors, or other matters (Grant &amp; Conditions, Clause 8).</p> <p>9. Exit Conference – Summarize reportable conditions in internal control for communication to the executive director and administrative officer. Summarize management points (matters <i>other than</i> reportable conditions) for possible communication to the client in a management letter.</p> <p>a. Fax these issues to the partner for submission to the Office of Audit.</p> <p>b. Provide AJE's to the administrative officer and reach agreement on the amount due to the AOUSC.</p> |                     |                    |

Cash – Audit Program

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| <p><b>AUDIT OBJECTIVES</b></p> <p>A. Cash in the statement of financial position is on hand, in transit, or on deposit with third parties (depositories) in the name of the nonprofit organization.</p> <p>B. All cash of the nonprofit organization related to CJA grant is included in the statement of financial position.</p> <p>C. Cash balances reflect a proper cutoff or receipts and disbursements and are stated at the correct amount.</p> <p>D. Cash balances are presented properly, and any restrictions on cash balances are adequately disclosed.</p> <p>Reference:<br/>Federal Defender Operations Manual, Chapter 5, Fund Control</p> <p><b>BASIC PROCEDURES</b></p> <p>1. Identify all depositories, including banks, savings and loan associations, and financial institutions from which certificates of deposit, money market accounts, and Treasury bills were purchased, with which the CDO has transacted during the period under audit.</p> <p style="padding-left: 40px;">a. Obtain or prepare a summary schedule of cash balances at the opening and closing of the period under audit.</p> <p style="padding-left: 40px;">b. For depository accounts opened and closed during the period, trace to authorization in the minutes of the board of directors.</p> <p>2. Ascertain that separate accounts are maintained for all grant activity (Grants &amp; Conditions, Clause 3; FDOM Chapter 5, V.F.2.).</p> |                     |                    |

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| <p>3. Using the standard AICPA form to confirm account balance information with financial institutions, request confirmation as of the statement of financial position date for each depository account identified. Document the items selected for confirmation and retain confirmations. Mail second requests if necessary.</p> <p>4. Obtain for the workpapers copies of bank reconciliations as of the statement of financial position date for each account, and perform the following procedures:</p> <ul style="list-style-type: none"> <li>a. Trace the bank balance on the reconciliation to the standard financial institutions account balance confirmation received from the bank or financial institution (or the balance per bank statement for any accounts not confirmed).</li> <li>b. Trace the reconciled book balance to the general ledger and workpaper trial balance or summary schedule as applicable.</li> <li>c. Test the clerical accuracy of the reconciliation and detailed supporting schedules.</li> <li>d. Review the cash receipts and disbursements ledgers for each bank account before and after the statement of financial position date) to identify interbank transfer checks and deposits, then determine that: <ul style="list-style-type: none"> <li>(1) Transfers between each ledger were recorded in the same period; that is, all before-year-end transfers were recorded in each ledger before year end, and vice versa for post-year-end transfers.</li> <li>(2) Transfers not clearing the bank in the same accounting period as they were initiated are properly reflected as reconciling items on bank reconciliations.</li> </ul> </li> <li>e. Review the nature and extent of the reconciling items (primarily deposits in transit and outstanding checks) for reasonableness. For bank accounts with unusual items or a large volume of reconciling items, perform the</li> </ul> |                     |                    |

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| <p>following procedures using a cutoff or subsequent month bank statement:</p> <ol style="list-style-type: none"> <li>(1) Compare the beginning bank balance on the cutoff bank statement to the bank reconciliation. Investigate any differences.</li> <li>(2) Trace deposits in transit per the bank reconciliation to deposits in the cutoff bank statement, noting reasonableness of the time period between book and bank recording.</li> <li>(3) Inspect selected canceled checks returned with the bank statement. Trace checks dated before the statement of financial position date to the list of outstanding checks.</li> <li>(4) Inspect the dates that checks cleared the bank. Investigate any large or unusual outstanding checks that cleared with the cutoff statement but took a long time to clear, or outstanding checks that did not clear (still outstanding). Such checks may be more properly designated as accounts payable if they were dated before year end, but not mailed until after year end. Note checks outstanding for over 3 months for discussion at exit.</li> <li>(5) Determine the propriety of other reconciling items as deemed necessary.</li> </ol> <p>f. For money market and savings account balances and certificates of deposit, tie confirmation amounts to general ledger amounts. Consider the possibility of unrecorded interest or substitution of certificate numbers.</p> <p>5. Determine whether deposits with financial institutions exceed FDIC or similar insurance coverage and whether disclosure of that excess has been made (Grants &amp; Conditions, Clause 2).</p> <p>Note – CDO deposits are considered public funds. Each account is therefore insured by the FDIC for \$100,000 even</p> |                     |                    |

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| within the same bank. Evaluate the adequacy of collateralization of each account using the \$100,000 limit; then consider additional pledged collateral (FDOM, Chapter 5). |                     |                    |

Prepaid Expenses – Audit Program

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| <ol style="list-style-type: none"> <li>1. Obtain or prepare for the workpapers a schedule of prepaid expenses as of September 30. If the schedule was prepared by the client, test it for clerical accuracy, and, if necessary, reconcile the schedule with the general ledger for both the prepaid items and the related expenses.</li> <li>2. Review individual computations of items comprising the prepaid balance.</li> <li>3. Review other year-end expenses for potential need for treatment as a prepaid expense.</li> </ol> |                     |                    |

Property and Equipment – Audit Program

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| <p><b>AUDIT OBJECTIVES</b></p> <p>A. Property and equipment represent a complete and valid recording of the cost of assets purchased, or leased, and such assets are physically on hand.</p> <p>B. Capitalizable costs are excluded from repairs and maintenance and similar expense accounts.</p> <p>C. Capitalized costs all sold, abandoned, damaged, or obsolete property and equipment have been removed from the accounts.</p> <p>D. Restrictions on the use or disposition of property and equipment have been complied with, and footnote disclosure presentation properly reflect such restrictions and activity.</p> <p>E. Property and equipment are properly disclosed in the footnotes to the statements.</p> <p>Reference:<br/>Federal Defenders Operations Manual, Chapter 6, Procurement.</p> <p><b>BASIC PROCEDURES</b></p> <p>1. Determine if organization has a designated manager of official property (Guide; Volume 1, Chapter 5, Part A).</p> <p>2. Compare recorded property and equipment with the prior period actual and capital budget, inquire about the CDO's capitalization policy, and consider the most efficient workpaper approach to audit property and equipment. That is, either (a) work directly from a copy of the CDO's detailed property records, compare to the general ledger, and reconcile any differences; (b) use a lead schedule that summarizes the transactions in each account, then supplement this with detailed schedules showing significant additions, retirements, or adjustments to each account (test the clerical accuracy of these workpapers, cross-reference amounts, and tie totals to the general ledger); or (c) obtain a</p> |                     |                    |

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| <p>copy of the summary listing of property and equipment, compare to the general ledger, and reconcile any differences.</p> <p>If summary lead schedule is used as the primary workpaper, it should contain the following columns for each property account.</p> <ul style="list-style-type: none"> <li>• Prior year end general ledger property balance.</li> <li>• Current year additions to property.</li> <li>• Current year retirements of property.</li> <li>• Other adjustments (for transfers between property accounts).</li> <li>• Adjustments column(s) (this can be one column or separate debit and credit columns).</li> <li>• As adjusted current year general ledger property balance.</li> <li>• Reductions to the account for current year retirements, sales, disposals, etc.</li> <li>• Other adjustments (a column just in case there were transfers between allowance accounts).</li> <li>• Adjustments column(s).</li> <li>• As adjusted current year property balance. Reconcile property list total to beginning of year plus net activity.</li> </ul> <p>3. For current year additions to property, perform the following procedures (Grants &amp; Conditions, Clause 11; FDOM, Chapter 6, Section 6-15):</p> <p style="margin-left: 20px;">a. Ensure that appropriate procurement procedures as well as approvals have been obtained.</p> |                     |                    |

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| <p>b. Ensure Board’s agreement with Executive Director includes delegation of authority to conduct procurement activities (FDOM, Chapter 6, Section 4.B).</p> <p>c. Ensure that delegations of procurement includes limitations not exceeding allotted funding and authority to re-delegate authority to staff. Delegation should be in writing (FDOM, Chapter 9, Section 4.B).</p> <p>Note – Most major procurements involve property, however, using the listing of vendors receiving in excess of \$5,000 determine whether other procurements of services may need to follow CJA and/or CDO procurement standards.</p> <p>d. Ensure full and open competition (see Grants and Conditions, Clause 11, Footnote 1) for all goods and services procured (except for investigators, experts or others for that purpose). Additionally,</p> <ul style="list-style-type: none"> <li>• Purchases over \$25,000 require advance AO approval.</li> <li>• No single automation hardware over \$500 or software title of more than \$1,000 shall be purchased without the prior approval of the AO.</li> </ul> <p>e. Inspect the property, noting its condition and adequacy of the property tag.</p> <p>f. Note proper posting to the inventory listing.</p> <p>g. For selected recorded property additions during the period, perform the following procedures:</p> <p>(1) For purchased items, test the cost by examining supporting documents such as purchase orders, paid checks, vendors’ invoices, purchase contracts, receiving reports, etc. Consider whether additions are recorded in the current period and classified correctly.</p> |                     |                    |

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| <p>h. Is a physical inventory sighting performed every two years (minimum).</p> <p>4. Determine whether other expenditure categories contain significant components that should be capitalized as current year additions to property or equipment.</p> <p>5. Inspect other items included in the opening general ledger property balance to determine that such items either are physically on hand and not damaged or obsolete or have been included in current year dispositions. Examine adequacy of property tag.</p> <p>6. For current year dispositions, perform the following procedures (FDOM Chapter 6, Section 16):</p> <p style="padding-left: 20px;">a. Inquire of responsible client personnel about whether there are any retirements, sales, abandonments, thefts, or damages to property, that are not reflected in the workpapers obtained in Step 1. Relate these facts to retirements, abandonments, damages, etc., noted during the tour of the CDO’s physical facilities and to any relevant information in minutes.</p> <p style="padding-left: 20px;">b. Scan revenue accounts for significant proceeds from the sale of assets.</p> <p style="padding-left: 20px;">c. Determine (by inquiry and review of documentation related to the original acquisition or donation of assets disposed of during the period, etc.) whether approvals were obtained in the disposition from the AOUSC for items over \$250 and the propriety of the disposition.</p> <p style="padding-left: 20px;">d. Determine that the manner of disposition is in compliance with the Guide, Volume I, Chapter V, Part A (Grants &amp; Conditions, Clause 11).</p> <p style="padding-left: 20px;">e. Determine if property items have been removed from workplace for official purposes. Document procedures for tracking items (Guide, Volume 1, Chapter 5, Part A).</p> |                     |                    |

Other Assets/Receivables – Audit Program

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| <p><b>BASIC PROCEDURES</b></p> <ol style="list-style-type: none"> <li>1. Review the General Ledger and Prior Audit for the existence of other assets or receivables.</li> <li>2. Determine current status to ensure that presentation is properly considered.</li> <li>3. Obtain support for the item from the prior audit or as necessary from the CDO based upon the nature and materiality of the item.</li> </ol> |                     |                    |

Due to Grantor – Audit Program

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| <p><b>BASIC PROCEDURES</b><br/>(FDOM, Chapter 5, VIII, D.)</p> <p>1. Schedule the following:</p> <ul style="list-style-type: none"> <li>• Grant Income</li> <li>• Interest Income</li> <li>• Other Income</li> <li>• Grant Expenditures</li> <li>• Amount due to Grantor as of the end of the prior year.</li> <li>• Amounts paid to Grantor for past year and current period.</li> </ul> <p>Note – If the amount of the grant was reduced during the fiscal year, then consider this as a reduction to Grant Income. If these funds were received and returned to AO during the year then consider this as additional amounts paid to grantor. The footnote disclosure should separately disclose this return of funds.</p> <p>2. Obtain documentation of the check and transmittal letter of funds returned to the AO.</p> <p>3. Note whether the 60 day requirement for return of funds was met. (See Grants and Conditions, Clause 5.) If not, disclose this within the footnotes.</p> <p>4. Obtain an understanding of the Amount Due to AO with the Administrative Officer.</p> |                     |                    |

Revenue – Audit Program

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| <p>1. Identify the various sources of grant or grant related revenue:</p> <ul style="list-style-type: none"> <li>- CJA funds</li> <li>- Interest Income</li> <li>- Other (Ensure that no payments are received from or on behalf of clients – Grants and Conditions, Clause 23)</li> </ul> <p>2. Confirm grant revenue with the AOUSC Central Accounting System with amounts recorded in the grantee’s books.</p> <p>3. Reconcile grant revenues per the general ledger to the Grant award. Note that modifications are other made in the final quarter to adjust the grant awarded to redistribute funds amongst CDO’s.</p> <p>4. Reconcile interest income per the general ledger to the supporting bank statements or remittance advance. Recognize the interest income on cash basis.</p> <p>5. Determine through discussion with the Executive Director or Administrative Officer whether other non-grant activities occur. Determine the amount of income (estimate) and its use. Ensure through discussion that funds are not generated through use of grant funded resources. Also, ensure that the non-grant funds are not used for grant eligible expenditures. No additional validation is necessary. (See also Grant and Conditions, Clause 3).</p> |                     |                    |

Payroll and Related Liabilities – Audit Program

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| <p><b>AUDIT OBJECTIVES</b></p> <p>A. Payroll (wages, salaries, and benefits) disbursements are made only for work authorized and performed.</p> <p>B. Payroll is computed using rates and other factors in accordance with personnel policies and approvals from AOUSC, if applicable.</p> <p>C. Payroll and related liabilities are recorded correctly as to amount and period and classified properly by account and expense category, and disclosures are adequate.</p> <p>Reference:<br/>Federal Defenders Operations Manual, Chapter 11, Section VIII, IX, XII.</p> <p><b>BASIC PROCEDURES</b></p> <p>1. Review the Grants and Conditions, Clause 15, related to personnel. Obtain the current personnel policies and practices that have been submitted to the AO.</p> <p>2. Compare payroll expense to prior period actual and current budget related to number of personnel. If meaningful, compute the average payroll cost per employee and compare to prior periods. Investigate significant variations.</p> <p>3. Reconcile salary and FICA totals to comparable totals on Form 941's filed with the IRS.</p> <p>4. For payroll benefit expenses and accruals, consider the reasonableness of amounts and perform the following:</p> <p>a. Compare accruals for compensated absences (e.g., vacation and sick leave) to the prior period actual and current budget, and compare the relation of amounts to gross pay with the same ratio for the prior period.</p> <p>b. Ensure that the posting of leave (usage and earnings) is supported by leave slips and earnings per policy and is clerically accurate.</p> |                     |                    |

Payroll and Related Liabilities – Audit Program

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| <p>c. Recompute certain employees leave accruals for proper computation using current salary levels.</p> <p>d. Ensure that leave neither exceeds maximum accrual level per policy nor is negative at any time during the year.</p> <p>e. For pension expense (e.g., a tax-deferred annuity plan):</p> <p>(1) Compare the recorded expense to the number of covered employees, and compare to the same relationship in the prior period. Investigate significant variations.</p> <p>(2) Trace the annual contribution to authorization in the minutes.</p> <p>(3) Recalculate the maximum contribution and compare it to recorded expense and limitations imposed by the Grants and Conditions and the understanding of allowable costs from DSD. Obtain detail of contribution for each employee and include in the report the manner by which the pension was calculated.</p> <p>f. Identify merit pay or other unusual compensation, including severance pay, and inspect evidence of approval and adherence to policy. Unusual or severance pay items are likely discussion items at the exit conference.</p> <p>g. Ensure that fringe benefit costs do not exceed the budget. Fringe benefits cannot exceed 3% of the FPDO average without specific committee approval, which is expressed within the committee approved budget. Budget committee notes may need to be obtained to ascertain differences. Excesses should be a disallowed cost.</p> |                     |                    |

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| <p>5. For journal entries related to payroll and liabilities, examine the related accounting records and supporting documents to determine whether the selected entry is valid and appropriate. Obtain an understanding of the business purpose of the underlying transaction. Determine that the entry was properly recorded in the general ledger in the correct accounting period.</p> <p>6. Calculate that FTE's are within the Committee approved level. The AOUSC – DSD has provided a form for this purpose to the CDO's. Review detail support for one month's input and test clerical accuracy.</p> <p>7. Payroll Transactions – Select a sample of payroll transactions including all new employees during the fiscal year. Document the items selected and perform the following procedures:</p> <ul style="list-style-type: none"> <li>a. Trace the pay rate or amount to proper authorization, and consider compliance with AO requirements, if applicable.</li> <li>b. Recalculate the gross pay. Trace the hours used to compute gross pay to time cards or time sheets, as appropriate. Do not accept negative time reporting.</li> <li>c. Ensure that new hires have AOUSC – DSD approvals and that all necessary information was provided to DSD to obtain approval in accordance with Grants and Conditions, Clause 15.</li> <li>d. Determine through observation, analysis and/or discussion that no outside practice of law has occurred (Grants &amp; Conditions, Clause 20).</li> <li>e. Review for reasonable liability insurance coverages (Grants &amp; Conditions, Clause 21).</li> </ul> |                     |                    |

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| <p><b>AUDIT OBJECTIVES</b></p> <p>A. Recorded expenses and cash disbursements are for goods or services authorized and received.</p> <p>B. Expenses incurred for goods or services and related accounts payable have all been identified.</p> <p>C. Expenses for goods or services and related disbursements and liabilities are valid and have been recorded correctly as to account, expense category, period, and amount.</p> <p>D. Expenses for goods or services and related liabilities are properly presented by expense category, and related disclosures are adequate.</p> <p>Reference:<br/>Federal Defenders Operations Manual, Chapter 5, VII.</p> <p><b>BASIC PROCEDURES</b></p> <p>1. Review the organization’s procedures and, requirements and grant requirements for purchasing goods or services.</p> <p style="padding-left: 40px;">a. Also, the auditor needs to identify the requirements pertinent to purchasing activities (e.g., competitive bidding) and requirements imposed by the AOUSC and grant provisions on various categories of expenses.</p> <p style="padding-left: 40px;">b. Ensure that all purchase obligations are posted to the accounting records on a timely basis. This includes cash expenditures, accounts payable, and all encumbrances. Timely would be defined as within the immediate monthly reporting period.</p> <p style="padding-left: 40px;">c. Ensure that the Board of Directors agreement with the Executive Director includes a delegation of authority to conduct procurement activities (FDOM, Chapter 6, Section 4.B).</p> |                     |                    |

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| <p>d. Ensure that the delegation includes the limitation that procurements not exceed allotted funding and the authority to re-delegate procurement authority to staff. The delegation should be in writing and maintained in a file (FDOM, Chapter 6, Section 4.B).</p> <p>2. Obtain or prepare for the workpapers a schedule of expenses by budget.</p> <p style="padding-left: 20px;">a. Compare the expenses to the prior period actual and current budget. Investigate significant variations.</p> <p style="padding-left: 20px;">b. Consider performing appropriate analytical tests of expenses susceptible to such tests; e.g., a test of office space by multiplying the monthly rent by 12, etc.</p> <p style="padding-left: 20px;">c. For specific selected expense accounts that are sensitive or subject to unusual risk (e.g., other services, expert services, etc.), select specific individual large disbursements and examine supporting documentation. Document the items tested.</p> <p style="padding-left: 20px;">d. Scan the accounting records for large and unusual transactions and review evidence obtained in other audit areas to determine any matters that should be disclosed in the financial statements or potential audit findings.</p> <p>Accounts Payable/Encumbrances</p> <p>3. Obtain or prepare for the workpapers a list of accounts payable and encumbrances as of September 30.</p> <p style="padding-left: 20px;">a. Test the clerical accuracy of the list and reconcile the balance to the general ledger.</p> <p style="padding-left: 20px;">b. Review cash disbursements records for disbursements in subsequent fiscal year; obtain and examine supporting detail and determine if the goods or services on the paid invoice were received.</p> |                     |                    |

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| <p>1. If received, was the transaction recorded as an Accounts Payable.</p> <p>2. If not received, determine whether the expense was chargeable as an encumbrance or whether the expense is questionable for the audit year.</p> <p>3. Note whether the liability is recorded in proper accounting period.</p> <p>c. Evaluate promptness of liquidating accounts payables and encumbrances. For balances exceeding 2 months after the end of the year obtain rationale from the CDO and make appropriate report disclosure.</p> <p>4. Cash Disbursements – Select a sample of 20 cash disbursements for goods or services, and examine related supporting documentation (purchase order, receiving report, vendor’s invoice, and check). Document the items selected. Review for:</p> <p>a. Agreement of amount recorded with invoice and check, and agreement of supporting documentation as to details; e.g., quantities, description, payee, endorsement, dates, etc.</p> <p>b. Correct recording as to period received, account, functional expense category as approved by AOUSC and budget requirements.</p> <p>c. Approval and compliance with budget and established procedures; cost is allowable, reasonable and necessary in the administration of a Federal Defender Organization (Grants &amp; Conditions, Clause 1).</p> <p>d. Compliance with restrictions and requirements of Grants and Conditions (Grant &amp; Conditions, Clauses 1, 16 and 17).</p> |                     |                    |

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| <p>e. Correspondence of prices and terms of purchases of similar items from different suppliers, when necessary.</p> <p>f. Traced to cleared check/bank statement noting agreement of date, amount and payee.</p> <p>g. Appropriate signature authorized check.</p> <p>h. Computer equipment/software purchases approved by the designated AO representative.</p> <p>5. Select a sample of travel expenditures (Grants &amp; Conditions, Clauses 14 and 17). Include at least 2 travel vouchers of the Executive Director and Administrative Officer (FDOM Chapter 8, Section 2.0).</p> <p>a. Agreement of amount recorded with general ledger with travel invoice and check.</p> <p>b. Supporting documentation of the travel invoice supports the amount requested and is:</p> <ul style="list-style-type: none"> <li>- reasonable</li> <li>- mathematically accurate</li> <li>- approved upon review of documentation and prior to payment</li> </ul> <p>c. Amount requested is in accordance with CDO’s travel policy. CDO travel policy is in accordance with CJA policy.</p> <p>d. Approvals for travel were obtained in advance from the Executive Director or AOUSC as required by CDO policy and Grant requirements. Approval for the Executive Director should be approved by President of the Board (FDOM Chapter 5, Section 2.D.).</p> |                     |                    |

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| <p>6. Determine if organization has Government Transportation Account (GTA).</p> <p style="margin-left: 40px;">a. Determine if GTA has written policies and procedures included in policy and procedures manual.</p> <p style="margin-left: 40px;">b. Determine that GTA is used for transportation charges only.</p> <p style="margin-left: 40px;">c. Select a sample of 2 billings from this account and review for potential misuse.</p> <p>7. Select additional travel reimbursements of Board members to ensure that they are consistently reimbursed in accordance with the organizations established travel policy (FDOM, Chapter 5, Appendix A, Section 9 and Chapter 8, Section 12).</p> |                     |                    |

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| <p>INTERNAL CONTROL ISSUES (11/04)</p> <p>A. Security Over Accountable Records</p> <ol style="list-style-type: none"> <li>1. Determine if access to accountable documents and check stock, custody records for accountable property and other assets are restricted to accountable persons.</li> <li>2. Verify that the safes/vaults are not accessible during working hours (i.e., safes/vaults are kept locked during the day; “day gates” are utilized) by unauthorized persons.</li> </ol> <p>B. Automated Financial Systems</p> <ol style="list-style-type: none"> <li>1. Internal Controls Environment</li> </ol> <p>Identify all automated financial record keeping systems used in CDO operations. Determine the following:</p> <ol style="list-style-type: none"> <li>a. Name of software (FAST, CFS).</li> <li>b. Is the system password protected?</li> <li>c. Is there a daily back-up of data?</li> <li>d. Are the operating procedures in writing?</li> <li>e. Is there off-site storage of data?</li> <li>f. Who has access to each program and subsystem?</li> <li>g. Are the internal controls for the automated system included in the internal control procedures manual?</li> </ol> |  |  |
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| <p>C. Petty Cash Fund (FDOM, Chapter 5, IX.)</p> <ol style="list-style-type: none"> <li>1. If the CDO has a fund, identify the custodian and alternate custodian.</li> <li>2. Determine if the amount of the fund is appropriate.</li> <li>3. Determine if the fund is used properly:               <ol style="list-style-type: none"> <li>a. Are individual payments from the fund limited to a maximum of \$25?</li> <li>b. Are fund vouchers written in ink or typed to prevent alterations?</li> <li>c. Is the custodian or alternate required to reconcile the fund each time a reimbursement voucher is prepared.</li> </ol> </li> <li>4. Determine whether the fund is secured in a locked receptacle during the day and in the vault or safe at night.</li> </ol> <p>D. Check Processing</p> <ol style="list-style-type: none"> <li>1. Verify that there is adequate separation of duties for check processing:               <ol style="list-style-type: none"> <li>a. Maintaining stock of blank checks;</li> <li>b. Preparing checks;</li> <li>c. Signing checks;</li> <li>d. Mailing signed checks;</li> <li>e. Recording disbursements.</li> </ol> </li> <li>2. If check signing plates or digital signatures are used, determine whether access to and possession of the signature plates/digital signatures is limited to a single/accountable individual who is responsible for maintaining control over his/her plate.</li> </ol> |                     |                    |

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| <p>E. Voucher Processing</p> <ul style="list-style-type: none"> <li>- Internal Control Environment</li> </ul> <p>Verify if there is adequate separation of duties between the individuals responsible for issuing purchase orders, receiving goods and services and approving the vouchers for payment.</p> <p>F. Questions for Financial Officer (and Administrative Officer if separate)</p> <ol style="list-style-type: none"> <li>1. Have you been directed to process any financial transactions that you felt uncomfortable about processing? If yes, please explain the situation and identify the specific transactions. (Auditor – Review the transactions for propriety.)</li> <li>2. Do you have any concerns regarding any transactions that you have processed during the audit period? If yes, please explain your concerns and identify the specific transactions. (Auditor – Review the transactions for propriety.)</li> <li>3. Provide the identified Financial personnel with a complete list of “Prohibited Items” from Acquisition Bulletin 2002-1 (dated November 2001) and ask if any items on the list have been purchased. If yes, have them identify the specific transactions. (Auditor – Review the transactions for propriety.)</li> </ol> <p>G. Office Credit Cards (Reference – FDOM Chapter 5, Section 5.B. and 11.B(1))</p> <ol style="list-style-type: none"> <li>1. Determine whether the CDO has a company credit card account.</li> <li>2. Determine if cardholder has been granted written delegation of procurement authority from the Executive Director.</li> </ol> |                     |                    |

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| <p>3. Determine whether there is an adequate separation of duties associated with the use and management of the credit card account</p> <p>4. Ensure that the operating procedures relative to the use of the account are documented in CDO Policy and Procedures Manual.</p> <p>5. Select a sample of 5 completed credit card voucher packages. Ascertain whether only the cardholder of record is placing orders using the card. Review the voucher packages for reasonableness of purchases.</p> <p>6. Review the voucher packages to determine whether the card has been used to secure items or services that are prohibited by the terms of the contract (i.e., personal use, official travel expenses, rental or lease of land or buildings and cash advances).</p> <p>H. Phone Card and Cellular Phone Audit Steps</p> <p>Note – There is very little use of phone cards. Most CDO’s now reimburse for use of cell phones. If cards are used perform the following:</p> <p>1. Ensure that a formal approval process exists in the CDO unit for the issuance of phone cards. Such authorizations should evince documented supervisory approvals.</p> <p>2. Ensure that an up-to-date list is maintained of individuals in the CDO who have phone cards. In this regard, ensure that when a phone card is issued with no name that it is assigned for the exclusive use of a single individual. Alternatively, they could implement a policy that dictates that each phone card must display a specific name.</p> <p>3. Ensure that a process is in place to ensure that phone cards are collected from terminating employees and that the returned phone cards are subsequently canceled.</p> |                     |                    |

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| 4. Ensure that the phone cards and listing of phone card authorization numbers are kept secured.<br><br>5. If cell phones are used, ensure that DSD approval has been obtained. |                     |                    |

Benefit Plan and IRS Issues (9/05) – Audit Program

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**Objectives:**

To determine if the CDO has met the regulatory filing requirements related to the pension and/or benefits plan and income tax exemption activities.

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| <p><b>Program:</b></p> <p><b>A. IRS Form 5500 Annual Return/Report of Employee Benefit Plan Review</b></p> <ol style="list-style-type: none"> <li>1. Ascertain if the CDO maintains a pension and/or benefit plan on behalf of its employees. If no, mark steps 2 through 15 as not applicable.</li> <li>2. Review the instructions for Form 5500 to become familiar with the reporting requirements.</li> <li>3. Review the Reporting and Disclosure Guide for Employee Benefit Plans.</li> <li>4. Document the type of employee benefit plan(s) maintained by the CDO. (Sec. 125 plan, flexible spending arrangements, money purchase pension plan, 401(k) pension plan, etc. etc.). Obtain a copy of such plan(s) for the file.</li> <li>5. If the employee benefit plan is administered by a third party, obtain a copy of the administration agreement for the file. Review agreement to determine the duties and responsibilities of the third party administrator.</li> <li>6. Obtain a copy of the Internal Revenue Service determination letter from CDO that the employee benefit plan conforms to the laws and regulations.</li> <li>7. Ascertain if there have been any plan amendments (either changes in benefits or changes in language to conform to new regulations) since the last determination letter was received. If so, determine if the plan amendments were submitted to the Internal Revenue Service for determination of compliance with current provisions.</li> </ol> |                     |                    |

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| <ol style="list-style-type: none"> <li>8. Obtain a copy of Form 5500 – Annual Return/Report of Employee Benefit Plan for the file. If applicable, obtain a copy of the Form 5558 – Application for Extension of Time to File Certain Employee Plan Returns.</li> <li>9. Determine the date Form 5500 was mailed to ESBA. If Form 5500 does not indicate the date signed by a responsible party, obtain a signed statement from a responsible party that details the date Form 5500 was filed.</li> <li>10. Determine if Form 5500 was filed within the required time requirements, including extensions.</li> <li>11. Obtain a copy of Form 5500 – Annual Return/Report of Employee Benefit Plan for the file. If applicable, obtain a copy of the Form 5558 – Application for Extension of Time to File Certain Employee Plan Returns.</li> <li>12. Determine the date Form 5500 was mailed to ESBA. If Form 5500 does not indicate the date signed by a responsible party, obtain a signed statement from a responsible party that details the date Form 5500 was filed.</li> <li>13. Determine if Form 5500 was filed within the required time requirements, including extensions.</li> <li>14. Scan Form 5500 to determine if the required sections appear to have been completed.</li> <li>15. Document the procedures used to inform employees about eligibility to participate and dates to enroll and make changes.</li> <li>16. Obtain a copy of the last Summary Plan Description of the Plan(s) issued to participants.</li> <li>17. Obtain a copy of the last Summary Annual Report.</li> </ol> |  |  |
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| <p>18. Obtain a representation from the CDO that acknowledges its responsibility to comply with DOL and IRS laws and regulations and, that to the best of its knowledge, has complied with such laws and regulations.</p> <p><b>B. IRS Form 990 Return of Organization Exempt from Income Tax Review</b></p> <ol style="list-style-type: none"> <li>1. Review the instructions for Form 990 to become familiar with the reporting requirements.</li> <li>2. Obtain a copy of the Internal Revenue Service determination letter that states the CDO is exempt from income taxes under 501(c) of the Internal Revenue Code.</li> <li>3. Obtain a copy of Form 990 and all attachments for the file. If applicable, obtain a copy of Form 8868 – Application for Extension of Time to file Return of Exempt Organizations.</li> <li>4. Determine the date Form 990 was mailed to the Internal Revenue Service. If Form 990 does not indicate the date signed by a responsible party, obtain a signed statement from a responsible party that details the date Form 990 was filed.</li> <li>5. Determine if Form 990 was filed within the required time requirements, including extensions.</li> <li>6. Scan Form 990, Form 990 Schedule A, and Form 990 Schedule B to determine if the required sections have been completed.</li> </ol> |  |  |
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