

INTERNAL CONTROLS FOR TODAY'S
TRANSACTIONS: *Time for a tune-
up?*

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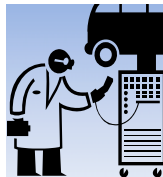
Does my car need a "tune-up"?

- "The parts that used to need a "tune-up" don't even exist on today's cars..."
- "...Today's technology has surpassed yesterday's distributors and spark plug wires..."
- If you mean preventive maintenance, the answer is yes."



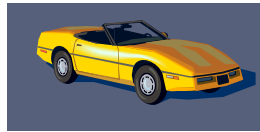
To avoid trouble...

- Today's new technology...
- requires new maintenance procedures.



What does this have to do with internal control?

- Everything!
- Cars have changed to become more efficient,
- Financial transactions have changed too.



Growth of Electronic Transactions:

- In 2000, what percent of bills were paid online?
- 1% (per the Tower Group)
- In 2009 what percent of bank customers used online bill paying?
- 45% (per Washington Business Journal)
- In 2010?
- 64%



Businesses are saving time and money by:

- Paying bills online,
- Making sales on the website,
- Paying employees by direct deposit,
- And more.
- Electronic transactions are the new normal.



How about internal control?

- Two signatures on checks?
- Receptionist log?
- Lock box collection?
- Electronic transactions bypass traditional controls.
- Are you leaving a window open for fraud?



Association of Certified Fraud Examiners says:

- “The typical organization loses 5% of its annual revenue to fraud.”
- “Small organizations are disproportionately victimized by occupational fraud.”
- 90% of frauds are occupational frauds.
- 38% of organizations victimized by fraud had lack of internal controls such as separation of duties,
- Less than 100 employees—47%.



Ripped from the Headlines:

- August 2011; Hartford CT Mark Twain House controller pleaded guilty to embezzling \$1 million from 2002 to 2010.
- Submitted payroll to payroll service online,
- Submitted additional pay for herself,
- Direct deposited to her personal bank account,
- Classified on books as maintenance, utilities, etc.



Embezzlements via Credit Card:

- July 2010; Milwaukee, WI VP of Finance pleaded guilty to authorizing wire transfers from company bank accounts to pay her personal AMEX bills. \$31 million.
- Delaware County PA bookkeeper admitted to paying company's card by ACH and then preparing a check for her own account for boss to sign. \$22,000.



\$6 Million in Fraudulent Disbursements

- 2011; Des Moines, Iowa woman admitted to creating a computer program to divert payments into her own bank account.
- Created fake commission payments to former workers and transferred them to her own bank account.



Fraudulent Refunds:

- August 2010; Mashpee MA bookkeeper pleaded guilty to embezzling \$145,000 through credit card refunds over 8 year period.
- Created fictitious customers, created refunds for them, and sent refunds to credit card accounts that she controlled.



Challenges for Small Organizations:

- Fewer staff to achieve separation of duties,
- Fewer resources for control procedures,
- The cost of implementing internal controls is “proportionally higher for smaller companies” per COSO.



Time for Preventive Maintenance

- Addition of new efficient transaction processes,
- Need not sacrifice accountability,
- Internal control procedures may need some preventive maintenance.



Who defines internal control? COSO

- Committee Of Sponsoring Organizations,
- AICPA is one of the five sponsoring organizations,
- Started in 1985 to study fraud,
- Seeks to provide thought leadership on internal control, enterprise risk management, and fraud deterrence.

COSO:

- Published *Internal Control—Integrated Framework* in 1992.
- This has become the widely accepted definition of internal control.
- Published *Guidance for Smaller Public Companies* in 2006.
- Working on updated Framework publication in 2012—20th anniversary of initial Framework.

Internal Control per COSO:

- “a process,
- effected by an entity’s board of directors, management and other personnel,
- designed to provide reasonable assurance regarding...
- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- Compliance with applicable laws and regulations.”

Internal Control in Smaller Organizations:

- A set of procedures,
- that business owners or Board members implement,
- to safeguard the organization’s assets, and
- Ensure the financial statements are reliable.



Control Procedures

- Intended to prevent, or detect and correct error or fraud. (SAS 109)
- Traditionally designed to **prevent** a misstatement,
- Electronic transactions may require more controls to **detect** and correct.

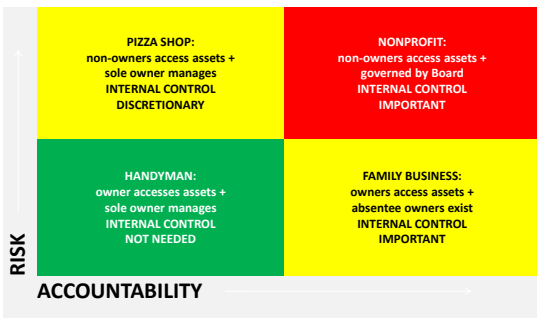


How Important is Internal Control?

- Depends on risk level and need for accountability:
- Risk increases when non-owners have access to assets,
- Need for accountability increases with absentee owners or Board of Directors.



Internal Control—driven by risk and need for accountability



Auditors Encounter Internal Controls in Risk Assessment Process

- In order to give opinion,
- gain and document understanding,
- of the entity, its environment and its internal control,
- to assess the risk of material misstatement of the financial statements,
- whether due to error or fraud, and
- to design further audit procedures. (SAS 104-111)

If Control Deficiencies Found

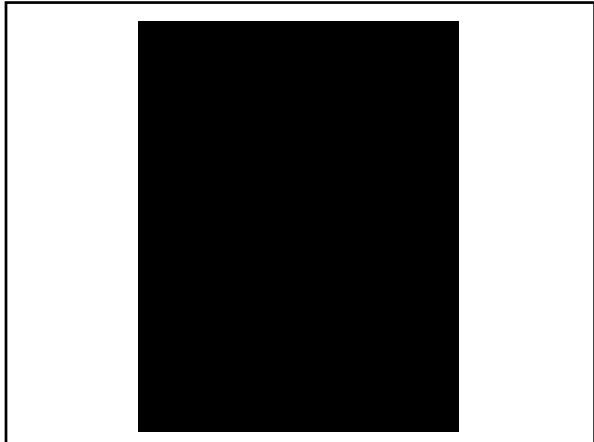
- Report to management and those charged with governance (SAS 115),
- Consider audit risks due to weaknesses, and
- Develop audit procedures in response to risk. (SAS 104-111).



When updating understanding of internal control...

- Ask if any new electronic transactions have been added:
 - Online bill paying,
 - Payments by ACH,
 - Website sales, and others.
- Update understanding before planning meeting.





SAS 104-111—Evaluation of Controls:

- Evaluate controls for *each significant class* of transactions, such as:
 - Cash disbursements/expenses,
 - Cash receipts/income,
 - Investments,
 - Inventory,
 - Notes payable,
 - Payroll,
 - Credit cards/expense reports

SAS 104-111—for each significant class of transactions:

- Review flow of transactions,
- Find the **key control** that prevents or detects/corrects misstatement,
- Walk through key controls,
- If no key control—control deficiency.
- See item 1 for example.

SAS 104-111—Consider Risks Related to Identified Weaknesses

- Note weakness on summary of potential SAS 115 management advisory letter items,
- Identify audit risks related to weaknesses on Risk Assessment Summary,
- Develop audit procedures in response to risk—note on Risk Assessment Summary.

Illustration—for each significant area:

- Study the flow of transactions,
- Identify key control or control deficiency,
- If deficiency, identify audit risk,
- Develop audit procedure to respond to risk,
- Suggest some control procedures to address deficiency.



Example #1—Online Payments

- Control deficiency—accounting manager can make online payments and keeps the books.
- Risk of unauthorized online payments.
- Audit procedure: test online payments selected from bank statements.

Online Payments—Suggested Control Procedures:

- CEO Review bank activity online and compare to authorized payments,
- Change to online banking platform that has levels of authorization,
- Is positive pay a control against embezzlement?



Example #2—Remote Deposit Capture

- Control deficiency—accounting manager keeps the books and receives incoming checks.
- Risk of unrecorded income.
- Audit procedure: test income for completeness using analytical procedures.

Remote Deposit Capture—Suggested Controls:

- Receptionist should scan checks before giving them to the accounting manager, or
- Receptionist should continue to maintain receptionist log.



Example #3—Website Sales

- Control deficiency—no control over recorded website sales. Sales recorded based on bank deposits. Destination of deposits of website sales can be changed.
- Risk of unrecorded website sales.
- Audit procedure: compare recorded sales to website reports, analyze gross profit.

Website Sales--Suggested Controls:

- Accounting manager should record sales from website reports, and
- Membership director should compare monthly recorded sales to website total for month.



Example #4—Online Payroll

- Control deficiency—accounting manager controls all aspects of payroll.
- Risk of unauthorized payroll, and risk of unauthorized payroll tax payments for accounting manager.
- Audit procedure: test accounting manager's pay, test for fake employees, test terminated employees. Reconcile recorded salary and payroll tax expense to 941s.

Online Payroll—Suggested Controls

- CEO should review VEC report quarterly,
- CEO should compare recorded salary and payroll tax expense to budget monthly.



Example #5—Credit Cards

- Control deficiency—no review of accounting manager’s credit card charges before payment. Credit card paid by ACH without approval.
- Risk of unauthorized credit card charges, risk of unauthorized ACH payments,
- Audit procedure: test of credit card charges, test of ACH payments.

Credit Cards—Suggested Controls

- CEO review of accounting manager’s credit card charges before payment, AND
- CEO review of ACH transactions online compared to authorized payments.
- ACH filters: do they prevent embezzlement?



A tune-up is not enough for today's cars...

- Traditional internal control procedures are not enough for today's businesses.
- New electronic financial processes require new internal control procedures...
- to promote accurate financial reporting and prevent fraud.



Summary:

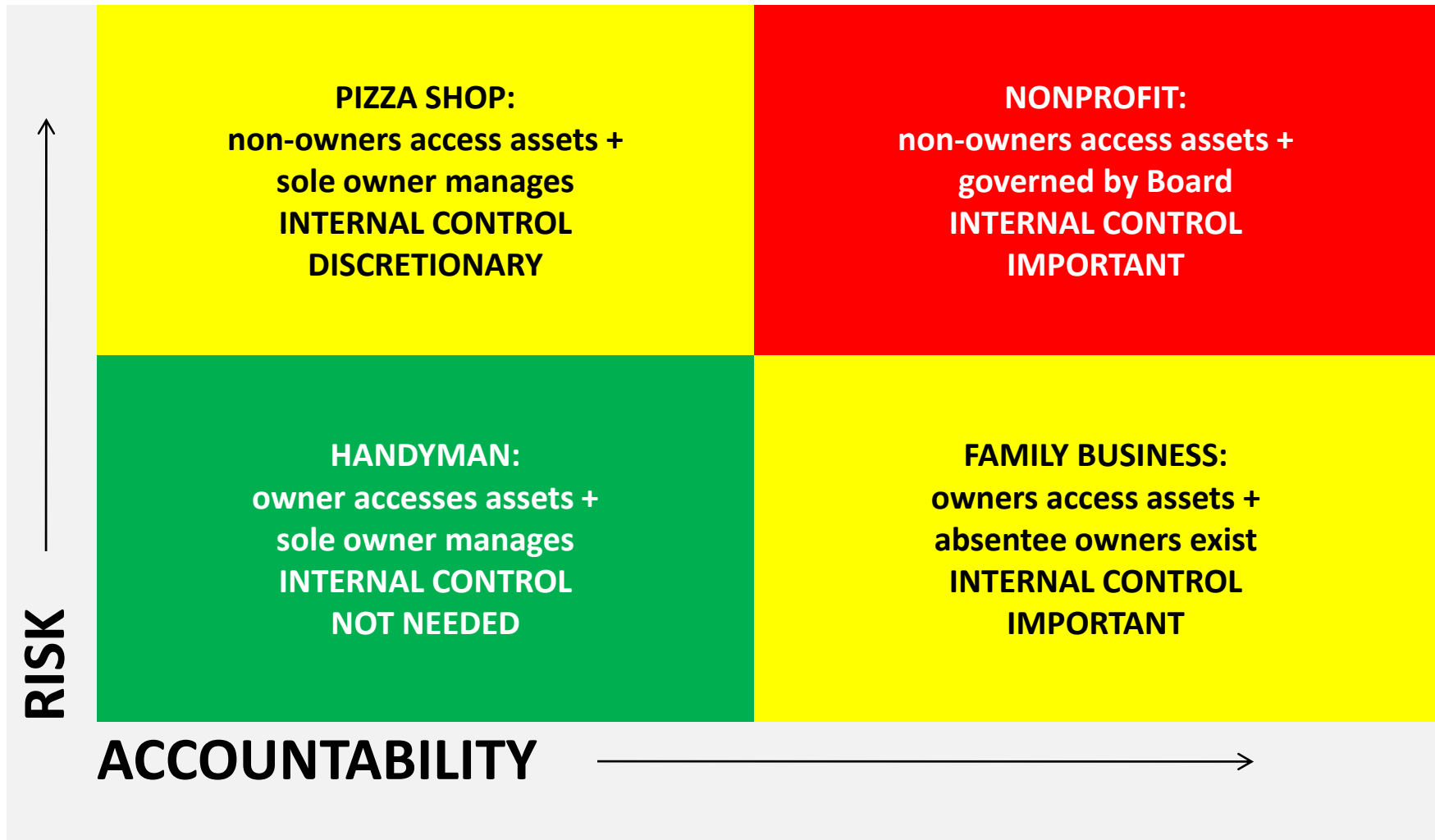
- Organizations and their auditors must consider risks posed by electronic transactions,
- Organizations must develop new procedures designed to control electronic transactions,
- Businesses can benefit from efficiency and still stay secure.



Questions:



Internal Control—importance based on risk and need for accountability



CX-4.2.1: Financial Reporting System Documentation Form - Cash - Location 1

Organization: Statement of Financial Position Date:
 National Membership Association 12/31/2011
 Audit Area(s): Cash Location(s): Location 1
 Transaction Class(es): Processing Disbursements, Processing Cash Receipts
 General Ledger Account(s): Cash, Revenue, Expenses

Instructions: See separate instructions at [NPO-CX-4.2](#) . When completing this form, focus on the control objectives and key controls related to the relevant assertions and risks you identified when performing other risk assessment procedures. The documentation on this form is intended to assist you in assessing the magnitude of those risks and deciding whether to respond to them with substantive procedures alone or a combination of substantive procedures and tests of controls.

1. Describe how transactions are processed for each significant transaction class affecting this audit area, including how the relevant control objectives are achieved and the controls, if any, the entity has implemented to prevent or detect and correct material misstatements related to fraud risks or other significant risks, or risks for which substantive procedures alone do not provide sufficient evidence.

Processing Disbursements

Cash disbursements

1) Accounting manager codes invoices and enters into accounts payable module. Accounting manager prepares checks on the 15th and 31st of each month. The accounting manager clips the invoice to each check and gives them to the CEO for signing. The president signs the checks and gives them to his assistant to mail. Checks over \$5,000 must have two signatures. The Treasurer or Board Chair are signors. (KEY CONTROL).

Beginning in 2011, the accounting manager obtained free online banking access and began paying bills online. The accounting manager receives the bank statement and performs the bank reconciliations. The accounting manager set up "positive pay" check verification service at the bank, which verifies the validity of all paper checks presented at the bank. (KEY CONTROL?/MATERIAL WEAKNESS?).

Credit Cards

5. The CEO, the membership director and the accounting manager all have Association credit cards for travel, meetings and online purchases. The accounting manager collects documentation for all credit card charges and pays the credit card bill by ACH (Automated Clearing House). The ACH withdrawal is recorded on the books by the accounting manager and appears on the Association's bank statement. (KEY CONTROL?/MATERIAL WEAKNESS?).

Considering the size and complexity of the organization, are controls over this transaction class properly designed and implemented to achieve the significant control objectives? (If no, describe the deficiency of design or implementation and the risks to the financial statements. Determine if those risks should be included on [NPO-CX-7.1](#) . Design or implementation deficiencies may be accumulated and evaluated using [NPO-CX-15.1](#) .)

No

Processing Cash Receipts

2) Checks for dues and meeting registrations arrive in the mail. The receptionist opens the mail and makes a log of all incoming checks and then gives them to the accounting manager. The log is password protected. Only the receptionist and the CEO have the password. The accounting manager enters the checks into the accounting system, makes up a deposit slip, and gives the deposit to the receptionist to take to the bank. The receptionist compares the deposit slip total to the log total and takes the deposit to the bank. (KEY CONTROL).

Beginning in 2011, the accounting manager signed up for remote deposit capture (RDC). Now the receptionist opens the mail gives the checks to the accounting manager. The accounting manager tallies the deposit, enters the checks into the accounting system, and gives the checks and the tally back to the receptionist for scanning. The receptionist scans each check using a special desktop scanner provided by the bank. The receptionist compares the scanned deposit total to the tally provided by the accounting manager. The scanner transmits the deposit directly to the bank electronically. (KEY CONTROL?/MATERIAL WEAKNESS?)

3) The Association has a website that sells publications online. Online payments go directly into the Association's bank account. Online orders are transmitted directly from the website to a drop ship warehouse to be filled. The membership director and the accounting manager both helped set up the website, and both have rights to change the bank routing information directing the destination of deposits of funds received through the website. The accounting manager records income from online publication sales in the general ledger based on bank deposit amounts. (KEY CONTROL?/MATERIAL WEAKNESS?)

Considering the size and complexity of the organization, are controls over this transaction class properly designed and implemented to achieve the significant control objectives? (If no, describe the deficiency of design or implementation and the risks to the financial statements. Determine if those risks should be included on [NPO-CX-7.1](#) . Design or implementation deficiencies may be accumulated and evaluated using [NPO-CX-15.1](#) .)

No
[]

2. Describe the sources of information used and procedures performed to obtain or update your understanding of the flow of information and to evaluate the design of controls and determine whether they have been implemented. (If walkthroughs are performed, cross-reference to [NPO-CX-4.3](#) .)
Inquiry of management, observation of control procedure

1. Key Control: Checks over \$5,000 must have two signatures.

Walkthrough Procedure: Examine five largest cancelled checks over \$5K for two signature authorization

Conclusion: No findings noted.

2. Key Control: Until implementation of RDC, Receptionist opened all mail and maintains check log with password protection.

Walkthrough Procedure: Analyze check log for month of March and match deposits from check log to bank statement.

Conclusion: No findings noted.

CX-4.2.1: Financial Reporting System Documentation Form - Payroll and Related Liabilities - Location 1

Organization: National Membership Association
 Statement of Financial Position Date: 12/31/2011
 Audit Area(s): Payroll and Related Liabilities Location(s): Location 1
 Transaction Class(es): Processing Payroll
 General Ledger Account(s): Payroll expense, payroll tax expense

Instructions: See separate instructions at [NPO-CX-4.2](#) . When completing this form, focus on the control objectives and key controls related to the relevant assertions and risks you identified when performing other risk assessment procedures. The documentation on this form is intended to assist you in assessing the magnitude of those risks and deciding whether to respond to them with substantive procedures alone or a combination of substantive procedures and tests of controls.

1. Describe how transactions are processed for each significant transaction class affecting this audit area, including how the relevant control objectives are achieved and the controls, if any, the entity has implemented to prevent or detect and correct material misstatements related to fraud risks or other significant risks, or risks for which substantive procedures alone do not provide sufficient evidence.

Processing Payroll

4) Payroll is processed by the accounting manager through the Association's accounting software, which transmits the paychecks to employees' accounts by direct deposit. The accounting manager reconciles the bank statement and files the payroll tax returns. The accounting manager pays payroll taxes using EFTPS (Electronic Federal Tax Payment System) (KEY CONTROL?/MATERIAL WEAKNESS?)

Considering the size and complexity of the organization, are controls over this transaction class properly designed and implemented to achieve the significant control objectives? (If no, describe the deficiency of design or implementation and the risks to the financial statements. Determine if those risks should be included on [NPO-CX-7.1](#) . Design or implementation deficiencies may be accumulated and evaluated using [NPO-CX-15.1](#) .)

[](Yes/No)

[]

2. Describe the sources of information used and procedures performed to obtain or update your understanding of the flow of information and to evaluate the design of controls and determine whether they have been implemented. (If walkthroughs are performed, cross-reference to [NPO-CX-4.3](#) .)

[]

Risk Assessment Summary Form

Entity: National Membership Association
 Completed by: [] Date: []

Statement of Financial Position Date: 12/31/2011
 Approved by: [] Date: []

Part I-Overall Risks and Responses

Describe overall risks (that is, risks at the financial statement level that may affect many assertions) and your planned responses. Examples of overall risks include weaknesses in the control environment, changes in management, going concern considerations, motivation by management to fraudulently misstate the financial statements, etc. Responses may include consideration of staffing, increasing the level of supervision, changing the timing of procedures, etc.

Identified Risk	Responses
<u>Management override of controls.(Significant)(Fraud)</u>	<p>The risk of management override of controls is addressed by procedures in the general audit programs. Such procedures include:</p> <ul style="list-style-type: none"> • <u>Assignment of audit staff based on consideration of audit risk.</u> • <u>Procedures to incorporate an element of unpredictability in the audit from period to period.</u> • <u>Consideration of the selection and application of significant accounting principles.</u> • <u>Examination of journal entries.</u> • <u>Review of accounting estimates for bias.</u> • <u>Evaluation of business rationale for unusual transactions.</u> • <u>Evaluation of the appropriateness of fraud-related inquiries performed.</u>

Part II-Risk Assessment Summary

Document your specific risk assessments your planned responses by completing the following table:

Significant Audit Area? (=Yes)	Audit Area	Risks of Material Misstatement		Risk Assessment			Response	
		Identified Risks/Assertions Affected	Indicate If Significant Risk (S=Significant, F=Fraud)	Risk Assessment Documentation Approach	I/R (H,M,L) ^a	C/R (H,M,L) ^b	Assessed RMM (H,M,L) ^{cd}	Audit Approach (L, B, E, S) ^e
✓	Cash		S,F	By Audit Area:				E
			S,F	or By Assertion:				
			S,F	E/O	H	H	H	
				C	H	H	H	
				R/O	L	H	L	
				V	L	H	L	
				A/CL	H	H	H	
				CO	H	H	H	
Comment^f: Responses:								

Significant Audit Area? (=Yes)	Audit Area	Risks of Material Misstatement		Risk Assessment				Response
		Identified Risks/Assertions Affected	Indicate If Significant Risk (S=Significant, F=Fraud)	Risk Assessment Documentation Approach	I/R (H,M,L)	C/R (H,M,L)	Assessed RMM (H,M,L)	Audit Approach (L, B, E, S)
✓	Program Service Fees, Revenue, and Receivables		S,F	By Audit Area:				E
			S,F	or By Assertion:				
			S,F	E/O	H	H	H	
				C	H	H	H	
				R/O	H	H	H	
				V	H	H	H	
				A/CL	H	H	H	
				CO	H	H	H	
Comment: Responses:								

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		Identified Risks/Assertions Affected	Indicate If Significant Risk (S=Significant, F=Fraud)	Risk Assessment Documentation Approach	I/R (H,M,L)	C/R (H,M,L)	Assessed RMM (H,M,L)	Audit Approach (L, B, E, S)
✓	Expenses for Program and Supporting Services and Accounts Payable and Other Liabilities		S,F	By Audit Area:				E
			S,F	or By Assertion:				
				E/O	H	H	H	
				C	H	H	H	
				R/O	L	H	L	
				V	L	H	L	
				A/CL	H	H	H	
				CO	L	H	L	
Comment: Responses:								

		Risks of Material Misstatement		Risk Assessment				Response
Significant Audit Area? (=Yes)	Audit Area	Identified Risks/Assertions Affected	Indicate If Significant Risk (S=Significant, F=Fraud)	Risk Assessment Documentation Approach	I/R (H,M,L)	C/R (H,M,L)	Assessed RMM (H,M,L)	Audit Approach (L, B, E, S)
✓	Payroll and Related Liabilities		S,F	By Audit Area:				E
			S,F	or By Assertion:				
				E/O	H	H	H	
				C	H	H	H	
				R/O	L	H	L	
				V	L	H	L	
				A/CL	L	H	L	
				CO	H	H	H	
Comment: Responses:								

CLIENT: National Membership Association
YEAR END: December 31, 2011

ADVISORY LETTER SUMMARY

SOURCES:

- 1. Understanding of Controls and Flow of Transactions**
- 2. Evaluation of AJES and PAJEs**
- 3. Testing Findings**
- 4. Prior Advisory Letter**

CONDITION	WORKPAPER REFERENCE	EVALUATION FOR REPORTING
1. Online disbursements:	1500.02	
2. Cash receipts:	1500.02	
3. Website sales:	1500.02	
4. Payroll:	1500.04	
5. Credit cards:	1500.02	

Risk Assessment Summary Form

Entity: National Membership Association
 Completed by: [] Date: []

Statement of Financial Position Date: 12/31/2011
 Approved by: [] Date: []

Part I-Overall Risks and Responses

Describe overall risks (that is, risks at the financial statement level that may affect many assertions) and your planned responses. Examples of overall risks include weaknesses in the control environment, changes in management, going concern considerations, motivation by management to fraudulently misstate the financial statements, etc. Responses may include consideration of staffing, increasing the level of supervision, changing the timing of procedures, etc.

Identified Risk	Responses
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Part II-Risk Assessment Summary

Document your specific risk assessments your planned responses by completing the following table:

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✓	Cash	Risk of unrecorded income related to remote deposit capture.(E/O,C,CO)	S,F	By Audit Area:				E
		Risk of improper online disbursements.(E/O,C,A/CL)	S,F	or By Assertion:				
		Risk of unrecorded publication sales from website.(E/O,C,CO)	S,F	E/O	H	H	H	
				C	H	H	H	
				R/O	L	H	L	
				V	L	H	L	
				A/CL	H	H	H	
				CO	H	H	H	
Comment^f	<p>1. Risk: Risk of improper online disbursements. Procedure: Test of online disbursements, see separate workpaper for full procedure. Conclusion: No findings noted.</p> <p>2. Risk: Risk of unrecorded income related to remote deposit capture. Procedure: Test income for completeness using analytical procedures. Conclusion: No findings noted.</p> <p>3. Risk: Risk of unrecorded publication sales from website. Procedure: compare recorded publication sales to website reports. Analyze recorded gross profit compared to expected gross profit. Conclusion: no findings noted.</p>							

Significant Audit Area? (=Yes)	Audit Area	Risks of Material Misstatement		Risk Assessment				Response
		Identified Risks/Assertions Affected	Indicate If Significant Risk (S=Significant, F=Fraud)	Risk Assessment Documentation Approach	I/R (H,M,L)	C/R (H,M,L)	Assessed RMM (H,M,L)	Audit Approach (L, B, E, S)
✓	Program Service Fees, Revenue, and Receivables	Risk of unrecorded income related to remote deposit capture.(E/O,C,CO)	S,F	By Audit Area:				E
		Improper revenue recognition due to fraud.(E/O,C,R/O,V,A/CL,CO)	S,F	or By Assertion:				
		Risk of unrecorded publication sales from website.(E/O,C,CO)	S,F	E/O	H	H	H	
				C	H	H	H	
				R/O	H	H	H	
				V	H	H	H	
				A/CL	H	H	H	
				CO	H	H	H	
Comment	<p>1. Risk: Improper revenue recognition due to fraud. Procedure: perform fraud risk inquiries. Analyze cutoff of revenue and collectability of receivables. Conclusion: No findings noted.</p> <p>2. Risk: Unrecorded income related to remote deposit capture - see cash assessment for procedures performed.</p> <p>3. Risk: Unrecorded publication sales from website--see cash assessment for procedures performed.</p>							

Significant Audit Area? (=Yes)	Audit Area	Risks of Material Misstatement		Risk Assessment				Response
		Identified Risks/Assertions Affected	Indicate If Significant Risk (S=Significant, F=Fraud)	Risk Assessment Documentation Approach	I/R (H,M,L)	C/R (H,M,L)	Assessed RMM (H,M,L)	Audit Approach (L, B, E, S)
✓	Expenses for Program and Supporting Services and Accounts Payable and Other Liabilities	Risk of improper online disbursements.(E/O,A/CL)	S,F	By Audit Area:				E
		Risk of unauthorized credit card charges by accounting manager. Risk of unauthorized ACH payments to credit card company.(E/O,A/CL)	S,F	or By Assertion:				
				E/O	H	H	H	
				C	H	H	H	
				R/O	L	H	L	
				V	L	H	L	
				A/CL	H	H	H	
				CO	L	H	L	
Comment	<p>1. Risk: Improper online disbursements - see cash assessment for procedures performed.</p> <p>5. Risk: Risk of unauthorized credit card charges by accounting manager. Procedure: test of credit card charges. Conclusion: no findings.</p> <p>Risk of unauthorized ACH payments to credit card company. Procedure: test of ACH payments to credit card company. Conclusion: no findings.</p>							

Significant Audit Area? (=Yes)	Audit Area	Risks of Material Misstatement		Risk Assessment				Response
		Identified Risks/Assertions Affected	Indicate If Significant Risk (S=Significant, F=Fraud)	Risk Assessment Documentation Approach	I/R (H,M,L)	C/R (H,M,L)	Assessed RMM (H,M,L)	Audit Approach (L, B, E, S)
✓	Payroll and Related Liabilities	Risk of unauthorized payroll initiated by accounting manager(E/O,C,A/CL)	S,F	By Audit Area:				E
		Risk of unauthorized payroll tax payments made to benefit accounting manager.(E/O,C,A/CL)	S,F	or By Assertion:				
				E/O	H	H	H	
				C	H	H	H	
				R/O	L	H	L	
				V	L	H	L	
				A/CL	L	H	L	
				CO	H	H	H	
Comment	4. Risk: Risk of unauthorized payroll initiated by accounting manager. Procedure: Test accounting manager's pay, perform test for fake employees, identify terminated employees and compare termination date to date pay stopped. Conclusion: no findings. Risk: risk of unauthorized payroll tax payments made to benefit accounting manager. Procedure: Reconcile payroll tax expense to 941s. Conclusion: no findings.							

CLIENT: National Membership Association
YEAR END: December 31, 2011

ADVISORY LETTER SUMMARY

SOURCES:

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- 3. Testing Findings**
- 4. Prior Advisory Letter**

CONDITION	WORKPAPER REFERENCE	EVALUATION FOR REPORTING
1. Online disbursements: Accounting manager can make disbursements online without authorization. Accounting manager keeps the books.	1500.02	Material weakness
2. Cash receipts: Accounting manager receives checks before they are scanned by the receptionist.	1500.02	Material weakness
3. Website sales: No comparison of recorded website sales to website reports. Sales recorded based on bank deposits. Membership director and accounting manager can change destination of deposits of sales on website.	1500.02	Material weakness
4. Accounting manager controls all aspects of payroll including initiating payroll, authorizing payroll, transmitting payments to employees, paying payroll taxes and filing payroll tax returns.	1500.04	Material weakness
5. No review of accounting manager's credit card charges before payment. Credit card paid by ACH without approval.	1500.02	Material weakness