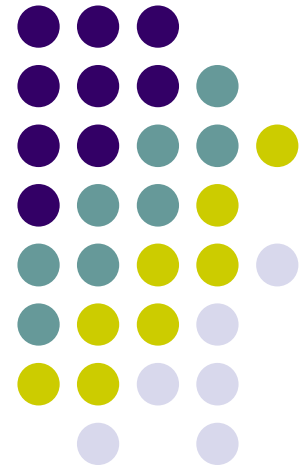


Louisiana Association of School Business Officials

Fraud & Internal Controls

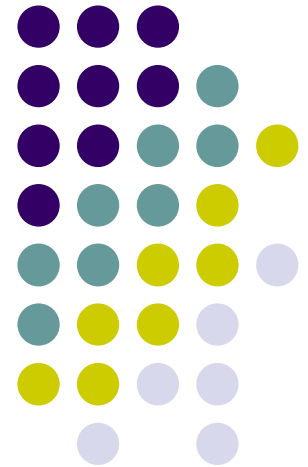
Spring Conference

May 18, 2010



The Government Environment

Why Fraud Risks are Different



Unique Aspects of Governments



- **Public organizations**
- **Involuntary resource providers**
- **Political environment**
- **Lack of profit motive**

Unique Aspects of Governments



- **Public organizations**
 - **Government in the Sunshine**
 - **Notice requirements**
 - **Access requirements**

Unique Aspects of Governments



- **Involuntary resource providers**
 - **AKA taxpayers**
 - **Public goods**
 - **Accountability**

Unique Aspects of Governments



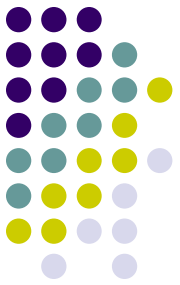
- **Political environment**
 - **Varies by type, size, & nature**
 - **Special interest groups**
 - **Partisan politics**
 - **Economic sensitivity**

Unique Aspects of Governments



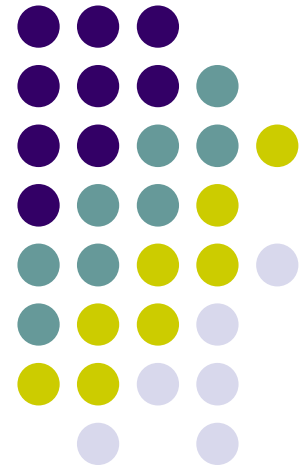
- **Lack of profit motive**
 - **Relates to concept of public goods**
 - **Cost recovery**
 - **Disparities among governments**

Special Concerns & Considerations for SLGs



- **Significant intregovernmental revenues**
- **More with less**
- **Low paid & insufficient number of employees**
- **Lack of profit motive**
- **Lack of ownership interests**

Internal Control Basics



Management & Internal Control



- **Management** is responsible for internal control including
 - **Fraud**
 - **Prevention**
 - **Detection**
 - **Deterrence**

Internal Control



- **Over financial reporting**
 - A **process** effected by an entity's **board of directors, management & other personnel**, designed to provide **reasonable assurance** regarding the achievement of objectives in the following categories
 - **Effectiveness & efficiency of operations**
 - **Reliability of financial reporting**
 - **Compliance** with applicable laws & regulations

Types of Controls



- **Preventive**
 - **Prevent a misstatement from being recorded**
- **Detective**
 - **Detect & correct misstatement before FS issued**

Examples of Controls



- **Preventive**
 - **Approval of POs by CFO**
 - **Governing body approval for certain purchases**
 - **Integrated subsidiary systems**

Examples of Controls



- **Detective**
 - **Bank reconciliations**
 - **Account analysis**
 - **Internal audit**

COSO Internal Control Framework



- **Five elements**
 - **Permeate**
 - **Operations**
 - **Financial reporting**
 - **Compliance**

COSO Internal Control Framework



- **Control environment**
 - Tone at the top
 - Bedrock on which all other elements based
- **Risk assessment**
 - Risk of material FS misstatement
- **Control activities**
 - Based on risk assessment
 - Evaluate in light of cost-benefit
- **Information & communication**
 - What, who, how, when
- **Monitoring**
 - To determine IC continues to operate effectively

Control Environment



If the “tone at the top” is one of zero tolerance & if fraudsters are promptly disciplined, employees may be less likely to commit fraud. A positive & open work environment, at all levels of the organization, also helps in preventing, detecting, & deterring fraud.

The Government Control Environment



- **Cost-benefit** considerations
- **Diminishing benefits** related to internal controls
- **Governing body & management focus more on operations** than control environment
- **Lack of administrative and/or accounting staff** to perform control activities

Risk of Material Misstatement



- How & where **financial statements** may be susceptible to material misstatement due to error or fraud
 - Specific accounts
 - Classes of transactions
 - Financial statement presentation or disclosures
 - Financial statements as a whole
- **Fraud risks**
 - Financial statement misstatement
 - Misappropriation of assets

Risk Assessment



- **Consider**
 - **Size & complexity of government**
 - **Management override**
 - **Number of personnel**
 - **Segregation of duties**
 - **Experience & expertise of personnel**
 - **Financially literate governing body or audit committee can compensate**
 - **Extent technology used**

Characteristics of Small Governments



- **Fewer levels of management & wider spans of control within them**
- **Less complex transaction processing systems**
- **Employees with wider ranges of duties**
- **Limited ability to maintain a depth of human resources in line & support staff positions**

Attributes of Small Governments



- **Tend to be flat organizations**
 - **Leadership concentrated in**
 - **Chief executive position AND**
 - **Chief financial officer position (in some cases)**
- **Often over-reliance on one individual**
 - **Operations**
 - **Accounting**
 - **Administration**

Attributes of Small Governments



- **Operate in an atmosphere of trust**
 - Long-time employees are often considered “family”
- **Tend to outsource more operations**
 - Lock box service
 - Payroll processing & reporting
 - Financial statement preparation

Attributes of Small Governments

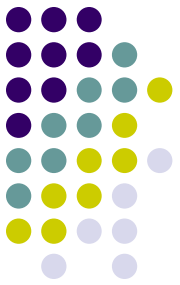


- **Few written and/or formal policies & procedures have been developed**
- **Senior management typically will communicate directly with employees**
- **Key positions often held by persons lacking requisite expertise to perform duties of the position.**

Risk Assessment



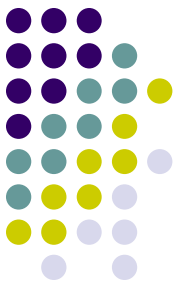
- **What could go wrong?**
 - **Initiation**
 - **Authorization**
 - **Processing**
 - **Recording**
 - **Reporting**



Significant Processes

- **Routine transactions**
- **Non-routine processes**
- **Estimates**
- **Spreadsheets**

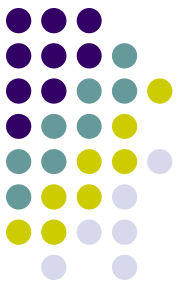
Examples Routine Transactions



- **Payroll**
- **Cash disbursements**
- **Utility receipts**

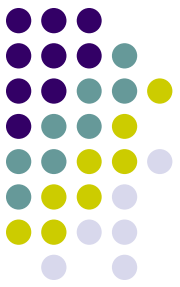
- **Initiation**
- **Authorization**
- **Processing**
- **Recording**
- **Reporting**

Examples Non-Routine Transactions



- **Sale of capital asset**
- **Issuance of bonds/LTD**
- **Purchase of capital asset**
- **Initiation**
- **Authorization**
- **Processing**
- **Recording**
- **Reporting**

Examples Year-End Transactions



- **Accruals**
- **Analysis adjustments**
- **Investments**
- **Pension/OPEB liabilities**
- **Fund to GWS reconciliations**

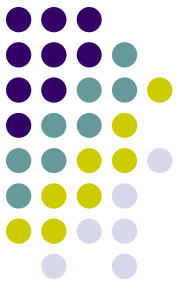
- **Initiation**
- **Authorization**
- **Processing**
- **Recording**
- **Reporting**

Risk Assessment IT Concerns



- **Improper segregation of duties**
- **Lack of qualified staff in IT function**
- **System access granted to a number of individuals**
- **System administration is sole responsibility of one individual**

Risk Assessment IT Concerns



- **Changes in operating environment**
- **New personnel**
 - **Key positions**
- **New IT systems**
 - **Operations or accounting**
- **Rapid growth**
 - **Systems & controls lag operations**
- **Reorganizations**

Mitigating Management Override Potential



- **Corporate culture** of integrity & ethical values
- Hiring **qualified** accounting personnel
- Effective **internal audit** function
- A **qualified governing body and/or audit committee** willing to assume responsibility to prevent/detect management override
- An effective **whistleblower** program

Mitigating Missing & Ineffective Controls



- **Increase management involvement in monitoring**
 - **Reviewing detail transaction reports**
 - **Reviewing selected transactions**
 - **Performing periodic counts of assets typically subject to misappropriation**
 - **Review reconciliations prepared by staff having incompatible duties**

Mitigating Missing & Ineffective Controls



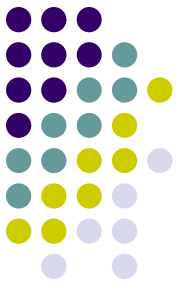
- **Hire qualified accounting personnel**
 - **Financially literate governing body/audit committee can be compensating control**
- **Use controls built into many purchased software packages**

Challenges to Effective Internal Controls in Small Governments



- **Limited staff or no staff with expertise in the area of accounting and finance**
- **Executives & managers may also function as operations personnel**
- **Governing body and/or executive management not financially literate**
- **Difficult to attract qualified individuals to fill position vacancies**

Challenges to Effective Internal Controls in Small Governments



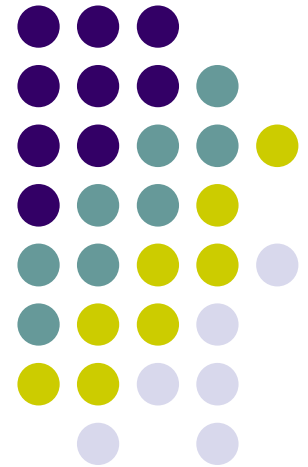
- **Outsourcing of accounting function to auditor**
 - **Non audit services for audit firm**
 - Calculate adjustments
 - Errors found through substantive & analytical procedures
 - Accrual adjustments
 - Receivables & payables
 - Depreciation
 - Investment income
 - Fair value measurements
 - Non-exchange transactions

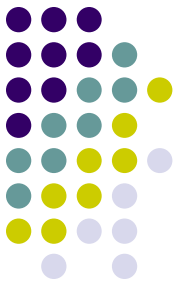
Challenges to Effective Internal Controls in Small Governments



- **Outsourcing of accounting function to auditor**
 - **Non audit services for audit firm**
 - Prepare
 - Account analyses
 - Trial balance
 - Depreciation schedule
 - Draft financial statements & notes
 - Income tax return & schedules
 - Management rep letter
 - **Independence issues**

Fraud Risks in Governmental Organizations

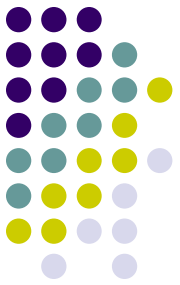




Introduction

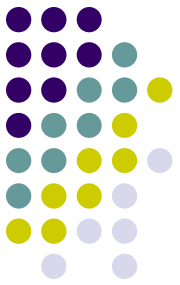
- **Fraud a major focus among**
 - **FS users**
 - **Investors**
 - **Watch dogs**
 - **Donors**
 - **Citizens**

Financial Statement Users

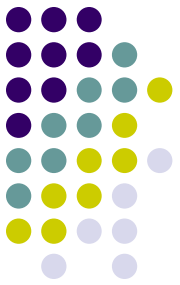


- **Citizens**
- **Legislative & oversight bodies**
- **Investors & creditors**

Workplace Fraud



- **2008 ACFE Report, major findings**
 - Median loss during the two-year study period was **\$175,000**
 - Fraud **loss size strongly related to position of perpetrator** in the organization
 - From time fraud began to time it detected was **two years**
 - Over **30%** of the frauds studied involved employees in the **accounting function**
 - Almost **20%** of frauds investigated involved **executive-level employees**



Workplace Fraud

- **2003 Ernst & Young survey**
 - **20% lost to some type of workplace fraud**
 - **Theft of office items**
 - **Claiming extra hours worked**
 - **Expense accounts**
 - **Taking kickbacks from suppliers**

Profile of a Fraudster



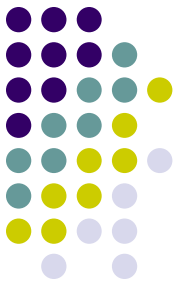
- **Equally line employees or managers**
- **Long-term &/or trusted employees**
- **Male**
- **31-50 years of age**
- **College educated**
- **Work in the accounting function**
- **Dedicated & often works long hours**
- **Dislike mandatory vacation policies**
- **Resents cross-training**
- **Seen as likeable & generous**
- **Deceptive & usually an adept liar**

Financial Statement Fraud



- **Intentional** misstatement
- **Due to**
 - **Fraudulent financial reporting**
 - **Misappropriation of assets**

Fraudulent Financial Reporting



- Intentional misapplication of **accounting principles**
- Improper **disclosures**
- **Misrepresentation or intentional omissions** related to events, transactions, or other significant information
- **Manipulation, falsification, or alteration of accounting records** or supporting documentation related to
 - Concealed liabilities
 - Fictitious revenues
 - Improper asset valuations
 - Timing or cut-off differences

Fraudulent Financial Reporting



- **Management override**
 - **Difficult to detect**
 - **Management withholds evidence**
 - **Misrepresentation of information in responding to auditor inquiries**
 - **Falsification of documents**

Fraudulent Financial Reporting



- **Manipulation, falsification, or alteration of accounting records or supporting documentation**
- **Misrepresentations or intentional omissions**
- **Intentional misapplication of accounting principles**

Misappropriation of Assets



- **Typically occur through**
 - **Embezzlement of receipts**
 - **Stealing assets**
 - **Skimming (before recorded)**
 - **Cash larceny (after recorded)**
 - **Causing the entity to pay for goods/services it has not received**

Misappropriation of Assets

Cash Disbursement Schemes



- **Billing schemes** causing an organization to pay for goods or services at inflated prices or that are for personal use
- **Expense reimbursements** for fictitious or inflated business expenses
- **Altering or forging checks** drawn on accounts of the organization

Misappropriation of Assets

Cash Disbursement Schemes



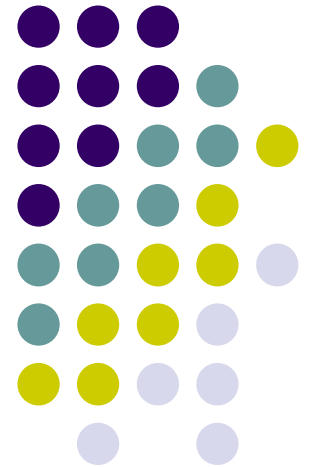
- Payroll disbursements for **fictitious employees or for hours not actually worked**
- **Fraudulent wire transfers** from the organization's accounts
- Regular **disbursements to conceal the theft** of cash receipts or cash on hand

Concealment Indicators



- **Discrepancies in records**
- **Conflicting/missing evidential matter**
- **Problematic/unusual relationship with auditor & client**

Fraud Basics



Elements of Fraud

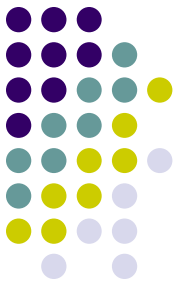


- Fraudulent activities are **covert**
- Perpetrator of fraud **violates his/her fiduciary duties** to organization
- Fraud typically committed for direct or indirect **personal financial gain**
- Defrauded **organization loses assets or revenues**
 - Citizens of the SLG

Typical Fraud Steps



- **Fraud is committed**
- **Perpetrators receive the benefits of the fraud**
- **Fraud is concealed**



Fraud Triangle

- **Incentive/pressure**
 - Placed on or perceived
- **Opportunity**
 - Circumstances conducive to fraud
- **Rationalization/attitude**
 - Character, ethical values
- **Effect of collusion**



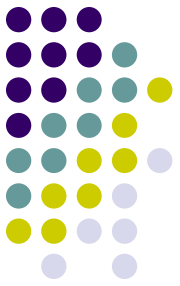
Incentive or Pressure

- **Governmental organizations often feel pressure to provide more and/or higher quality services when elected officials are reluctant to**
 - **Increase tax rates or user charges**
 - **Cut service levels**

Opportunity



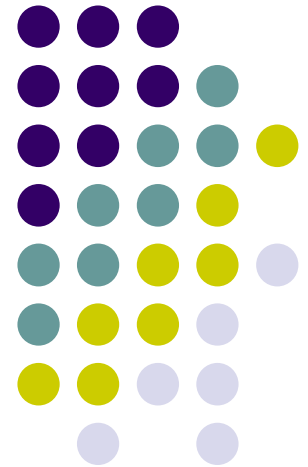
- **Number of locations taking cash payments**
 - **Cash may be received at either central or offsite locations by persons lacking knowledge of existing internal controls**
- **Over-reliance on CFO position**
- **Lack of personnel or lack of adequately trained personnel**
- **Employee turnover**
 - **Low in SLGs**



Rationalization or Attitude

- **Employees often paid less than their counterparts in private sector**
- **Inadequate staff in accounting/support positions creates high work load levels**
- **Working out of class issues**
- **Feeling there is a lack of support or appreciation from management & those charged with governance**
 - **Often from citizens as well**

Fraud & the Auditor

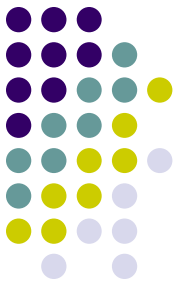


Marketplace Expectations



- Purpose of a financial statement audit is to provide **reasonable assurance** the statements are free from material misstatement due to error or fraud
- 2008 Treasury report indicates **auditor's obligation to detect fraud is single most confusing issue** for executives & nonauditors to understand
- 2002 survey of executives & other finance professionals indicated **80% of this financially literate group believed job of external auditor was to prevent fraud**

Professional Auditing Standards



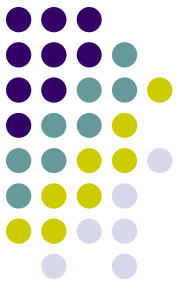
- Auditor required to exercise professional skepticism throughout the audit
 - Effect of long-term client relationships
- Fraud risks in every audit
 - Revenue recognition
 - Management override

Auditor Communication of Fraud



- **Required to communicate fraud**
 - **Immaterial, low level**
 - **Material**
 - **Any fraud, management**

Communication Challenges in Reporting Fraud



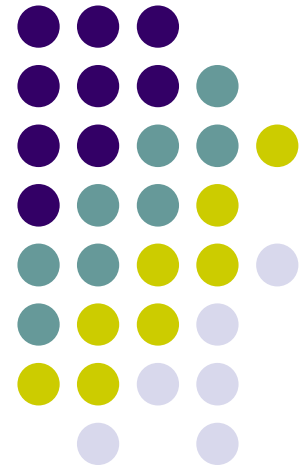
- **Written or oral**
 - Documentation of communication required
- **Consideration of reporting to third parties**
 - Legal/regulatory requirements
 - Successor auditor
 - Subpoena
 - Funding agency/other specified agency

Special Communication Concerns

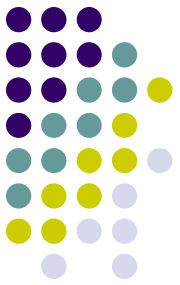


- **General concerns**
 - “May” exist
 - Confidentiality issues
- **Form of communication**
 - Public meetings
 - Public records

Unique Fraud Risk Areas



Common Fraud Areas in Governments



- **Overstatements**
 - Earnings/change in net assets/fund equity
 - Fictitious revenues
 - Improper revenue recognition
 - Assets
 - Inventories
 - Property values
 - Fictitious assets
- **Understatements**
 - Expenses/expenditures
 - Allowances
 - Impairments

Unique Fraud Areas in Governments

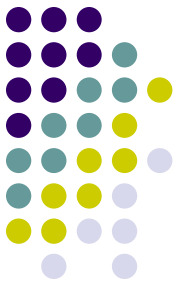


- **Fund accounting**
- **Interfund transactions**
- **Functional allocation of expenses**
- **Internal accounting controls**
- **Repeat control deficiencies**

Fund Accounting



Using the fund structure, governmental organizations are able to conceal, misrepresent, or manipulate transactions whether with the intent to defraud or not



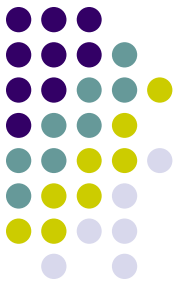
Interfund Transactions

- **Conceal a number of irregularities**
 - **May result in fraudulent financial reporting if not detected**
- **Examples**
 - **Offsetting operating losses in business type activities**
 - **Concealing budget shortfalls**
 - **Infusing working capital to meet covenant ratios**

Functional Allocation of Expenses



Some governmental agencies may misstate functional amounts to circumvent legal requirements or to comply with grant provisions or bond covenants



Internal Accounting Controls

- **Lack of staff or lack of qualified staff in administrative and/or accounting & finance functions**
- **Employee compensation & longevity**

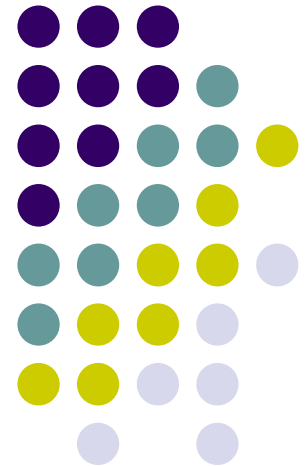
Repeat Control Deficiencies

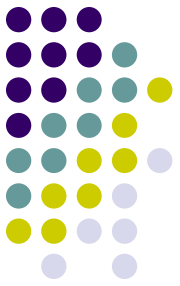


- Reasons for not correcting control deficiencies **may indicate an attitude of rationalization throughout the entire governmental organization**
- Continued existence of missing or ineffective internal controls might create incentives and/or opportunities for fraud to occur

Fraud Risk Areas

**Revenue Recognition
Management Override**





Revenue Recognition

- **Governments**
 - Really a fraud risk?
 - Exchange vs. non exchange
 - FS classifications
 - Charges for services
 - Special taxes

Revenue Recognition – Timing Issues



If current year revenue estimates have not been met, an **incentive to prematurely recognize revenue** may exist

Conversely, if budget levels for the current year have already been achieved an incentive to **move revenue from the current period into the subsequent period** may exist

Revenue Recognition Fraud Indicators



- **Significant or unusual adjustments to receivables at or near year-end**
- **Documentation relating to cash receipts is missing or altered**
- **Cash flow from operating activities is inconsistent with actual cash flow**
- **Significant or unusual entries to reconcile major revenue accounts**

Revenue Recognition Fraud Indicators



- **Unusual or unexplained significant fluctuations in major revenues from year to year or from budgeted amounts**
- **Significant (in amount or frequency) related party transactions**

Revenue Recognition Fraud Indicators



- **Revenue transactions that have been pre or post dated from the actual transaction date**
- **Significant journal entries made to major revenue accounts rather than flowing through from adjustments to subsidiary accounts**

Management Override & Public Accountability

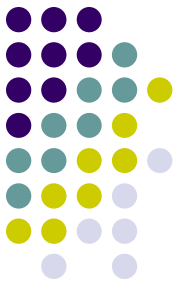


- **Balanced budget**
- **Finance services**
- **Debt obligations**



Management Override

- **Journal entries**
- **Estimates**
 - Functional expenses/expenditures
 - Allocating costs to grants
 - Useful lives
 - Actuarial assumptions
- **Business rationale for transactions**
 - Bribes & kickbacks
 - Billing schemes
- **Rationale is often public accountability concerns**



Bribes & Kickbacks

On average the most expensive corruption scheme committed by employees

#2 Undisclosed conflicts of interest

#3 Accepting illegal gratuities

#4 Economic extortion

Management Override & Expense Recognition



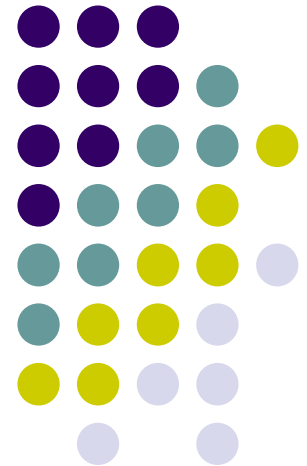
In many governmental organizations, appropriations that are not expended by year end are lost

Having actual **expenditures significantly less than appropriated amounts** may negatively affect the amounts appropriated in subsequent years

Personnel may also overstate expenses by charging **additional costs to grants** with remaining funds or those that are terminating

Fraud Risk Areas

Misappropriation of Assets



Misappropriation of Assets



- **Typical focus of controls is on cash receipts**
- **Cash disbursements**
 - **Causing entity to pay for goods/services it does not receive**
- **Contributing factors**
 - **Highly technical transactions**
 - **Insufficient number of trained personnel**
 - **Lack of personnel in support functions**

Assets Subject to Misappropriation



- **Cash & cash equivalents**
- **Legally confiscated items**
- **Inventories of supplies, etc., and physical assets**
 - **Small in size, high in value**
 - **High in consumer demand**
 - **Easily convertible to cash**
 - **Lacking in ownership identification**
- **Equipment subject to personal or non-program use**
- **Physical assets susceptible to personal use or redirection**

Common Schemes



Embezzlement of cash receipts and fraudulent disbursements (including accounts receivable frauds)	Personnel frauds	Diversion of physical assets including property, plant, and equipment	
Procurement & contracting frauds	<i>Common Schemes to Misappropriate Assets</i>		Diversion of program benefits and assets

Indicators of Procurement and/or Contracting Fraud



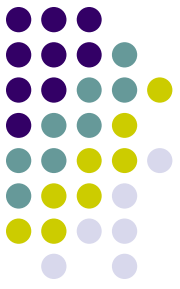
- **Unusual vendor names & addresses**
- **Copies of invoices, purchase orders, or receiving documents rather than original documentation**
- **Orders for materials/supplies already on hand in sufficient quantities or that are scheduled for disposal/discontinued use due to obsolescence**
- **Orders for materials/supplies not consistent with the operations and/or mission of the organization**
- **Delivery addresses not part of the purchaser's physical locations**

Indicators of Procurement and/or Contracting Fraud



- **Purchases falling just below the threshold for required next-level approval (in quantity or amount)**
- **Split purchases using purchase orders, vendor invoices, change orders, etc.**
- **Payments to vendors not on approved vendor lists**
- **Signature of management or supervisory personnel on documents typically signed by subordinate personnel**
- **Supplier/contractors receiving significant amounts of business from the organization**

Indicators of Procurement and/or Contracting Fraud



- **Prices in excess of market**
- **Complaints from vendors/suppliers regarding not being allowed to bid, stringent bid specifications or procedures, inadequate time allowed for responding to bid requests**
- **Contract award patterns that may indicate bids are being rotated**
- **Sole source procurements in significant number or without adequate justification**

Indicators of Cash Receipts & Disbursements Fraud



- **Missing or out-of-sequence blank checks**
- **Significant bank reconciling items without reasonable explanation**
- **Second payee or unusual endorsements on checks**
- **Missing cancelled checks**
- **Unusual disbursement transactions or transactions with lacking/insufficient supporting documentation**
- **Citizen/customer complaints about amounts they owe (for taxes, services rendered, etc.)**

Indicators of Accounts Receivable Fraud

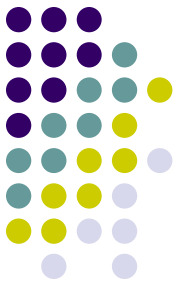


- **Unexplained differences noted on receivable confirmations received**
- **Significant or unusual adjustments to receivable records**
- **Amounts deposited that are inconsistent with amounts due**
- **Significant credit balances in receivable accounts**



Indicators of Inventory Fraud

- **Significant inventory shrinkage**
- **Unusual inventory turnover**
- **Significant unusual or unexplained entries to control or subsidiary inventory records**
- **Significant unusual or unexpected relationships in inventory and inventory related ratios**
- **Receiving reports differing from purchase orders, contracts, or vendor invoices**



Procurement Cards

Increased use of procurement or purchasing cards may result in increased fraud risks if **adequate controls** over their use and distribution are not in place

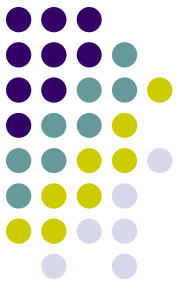
Unfortunately, not all governmental organizations have effective controls in place to ensure proper use of these cards

Indicators of Personnel Fraud



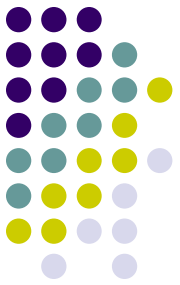
- **Unusual or second-party endorsements**
- **Employees without usual withholdings related to employer provided or offered benefits (i.e., insurance, retirement, savings bonds, etc.)**
- **Missing, unusual looking, or altered time & attendance records in general or frequently for the same employee(s)**
- **Time & attendance records signed by someone other than usual supervisor in general or frequently for the same employee(s)**

Payroll & Personnel Control Procedures



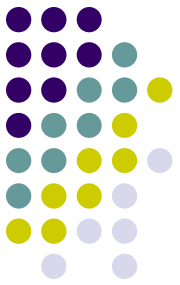
- **Typically focus on**
 - Time card/sheet
 - Personnel file info
- **Often lack focus on**
 - Legitimacy of approvals
 - Overtime
- **Types of overtime controls**

Indicators of Misappropriations of PP&E



- **Missing/lacking policy re: personal use**
- **Physical inventory performed less often than each year**
- **Missing/ineffective asset identification system**
- **Poor controls over sales/disposals**
- **Poor controls over contributed assets**

Personal Use of Public Assets



- **Contributing factors**
 - Management override
 - Inadequately trained personnel
 - Lack of personnel
 - Attitude
- **Controls**
 - Cost-benefit issues

Assets Subject to Personal Use



- **Computers**
- **Cell phones**
- **Vehicles**
- **Audio-visual equipment**
- **Buildings**
- **Others**



Other Fraud Issues - PP&E

- **Lack of periodic physical inventory**
 - Identification tags
- **Sales & disposals may lack effective controls**

Program Benefits Subject to Misappropriation



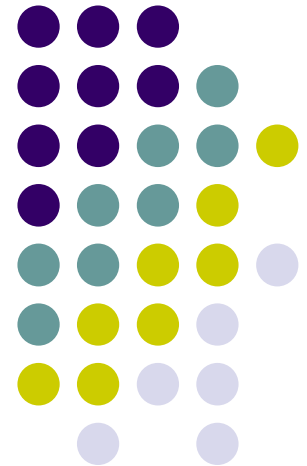
- **Unemployment**
- **Food stamps**
- **Housing assistance**
- **Financial aid**
- **Health care**
- **Legal assistance**
- **Child care**

Indicators of Diversion of Program Benefits and Assets Include

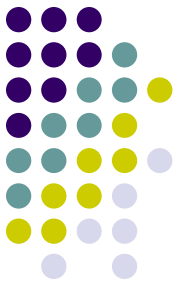


- **Copies of or missing application forms & underlying supporting documentation**
- **Participant files lack required information**
- **Decentralized intake centers or centralized intake centers with little or no monitoring by management or supervisory personnel**
- **Inadequately trained and/or supervised program personnel**
- **Multiple operations/locations**
- **Inadequate or ineffective controls over program assets**
- **Lack of periodic physical inventories of program assets**

Fraud Prevention & Detection Procedures

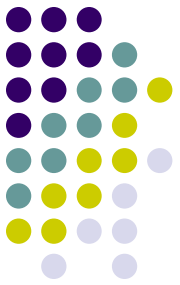


How to Prevent, Detect, & Deter Fraud



Being aware of situations that have the potential to create fraud risks is the first step in designing effective programs & controls to prevent, detect, & deter fraud.

Warning Signs



<p>Warning!</p>	<p>An organizational culture of arrogance and management entitlement.</p>
<p>Warning!</p>	<p>Accounting policies relying too heavily on management's judgment.</p>
<p>Warning!</p>	<p>Accounting policies that seem too aggressive especially in light of accounting and finance staff expertise.</p>
<p>Warning!</p>	<p>Overly centralized control over financial reporting especially in organizations with larger or more adequate staff in the areas of accounting and finance.</p>
<p>Warning!</p>	<p>Departure of key senior management personnel.</p>

Warning Signs

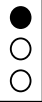






<p>Warning!</p>	<p>Failure to listen to key accounting/finance personnel within the organization.</p>
<p>Warning!</p>	<p>Receivables growing at a faster rate than the related revenues.</p>
<p>Warning!</p>	<p>Periods of prolonged success especially when economic, industry, or organizational conditions indicate otherwise.</p>
<p>Warning!</p>	<p>Difficulty in paying bills on a timely basis or less timely than in prior years.</p>
<p>Warning!</p>	<p>Transactions lack economic purpose (may be indicative of kickbacks as well as misappropriation of assets or financial statement fraud).</p>

Computer Fraud



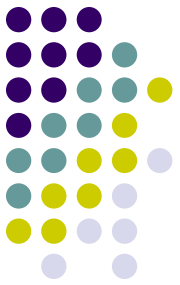
Internal accounting controls that may be effective in preventing detecting, and deterring computer fraud include the following:

	Separation and rotation of duties both within and external to the technology function.
	Timely update of accessible computer applications when personnel change jobs or when the requirements of their current position change.
	Periodic and surprise inspections and security reviews.
	All control policies and procedures required to be written (zero tolerance for deviations from this policy).
	Offline controls and limits such as batch controls and hash totals where indicated and cost-effective.

Detection Procedures



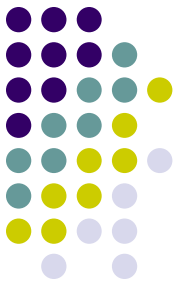
- **Ascertaining if any significant budget adjustments were made at, near, or after year end and the reasons therefore**
- **Determining all budget adjustments made at, near, or after year end were properly and timely approved by appropriate personnel or governing body, if required**



Detection Procedures

- **Reviewing significant interfund transactions made at, near, or after year end**
- **Consider changes in the specific funds constituting major funds**
 - **Inquire as to the reasons for significant changes resulting in reclassification from the previous year**
 - **Does this make sense?**

Detection Procedures



- **Review responses to inquiries regarding analytical relationships**
 - Vagueness
 - Plausibility
 - Inconsistency with other known circumstances
- **Evaluate whether observations affect the previous assessments of risk relating to**
 - Fraudulent financial reporting
 - Misappropriation of assets