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Agricultural
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Service

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Audit Program

Audits of Federal-State Inspection and Grading Programs for Fresh Fruits and Vegetables




Developed by the
Office of Inspector General

FOREWORD

This audit program was developed by the Office of Inspector General, in cooperation with the Agricultural Marketing Service. This program represents the culmination of a unique inter-agency cooperative effort. Together, OIG and AMS are committed to providing an efficient and effective nationwide inspection service.

This audit program is designed to assist auditors employed by AMS in conducting audits of Federal-State inspection programs in accordance with generally accepted governmental auditing standards. These standards will enhance the overall consistency and quality of the audit work performed.



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**AUDIT
PROGRAM**

Agricultural Marketing Service
Fruit and Vegetable Division

AUDITS OF FEDERAL-STATE INSPECTION AND GRADING
PROGRAMS FOR FRESH FRUITS AND VEGETABLES

Purpose: This audit program will be used by auditors in conducting audits of Federal-State inspection and grading services for fresh fruits and vegetables.

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AUDIT PROGRAM

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I. AUDIT PLAN

I.A INTRODUCTION AND BACKGROUND

This audit program is designed to assist auditors in conducting performance audits of Federal-State Inspection (FSI) programs for grading services for fresh fruits, vegetables, nuts, and flowers and other ornamental crops. The audit program is not all inclusive and is not intended to restrict auditors' initiative or the work required to meet generally accepted government auditing standards. Moreover, this program is not a substitute for knowledge of applicable laws, regulations, policies, and procedures. Auditors must use professional judgment to tailor the audit approach to incorporate variables that may be encountered at the audit site. However, the audit steps in this program are minimum requirements to be accomplished in order to obtain uniform and consistent audit coverage.

The Agricultural Marketing Act (AMA) of 1946 authorized the Secretary of Agriculture to inspect, certify, and identify the class, quality, quantity, and condition of agricultural products shipped or received in interstate commerce. The Act also authorized the Secretary to enter into cooperative agreements with State agencies (cooperators) or other groups to perform this work and charge fees that are reasonable and adequate to cover the cost of services rendered. Any fees collected and interest earned are to be credited to the FSI program fund account.

The Agricultural Marketing Service (AMS) was established by the Secretary of Agriculture on April 2, 1972, to enhance the marketing and distribution of agricultural products from the Nation's farms. The Secretary delegated administrative authority under the AMA to the Administrator of AMS. Within AMS, the Director of the Fruit and Vegetable Division is responsible for the FSI program. The Chief of the Fresh Products Branch is responsible for ensuring that FSI programs comply with Federal instructions and policies governing the performance of inspections.

AMS administers the FSI program for fresh fruits, vegetables, and other related commodities through cooperating FSI agencies. The primary mission of the FSI program is to provide nationwide inspection and grading services to shippers, importers, processors, sellers, buyers, and other financially interested parties on a "user fee" basis. Use of the inspection service is generally voluntary and made available upon specific request although mandatory inspections are required for several commodities such as peanuts. The inspection fees are computed on the

basis of the type of inspection and unit size, such as pounds or tons for crops such as fruits, vegetables, or peanuts. The objective of the inspections is to determine and certify the grade, quality, and/or condition of fresh fruits or vegetables and related products to facilitate the movement of these products through marketing channels from growers to wholesalers, retailers, and consumers.

Grading services for fresh fruits, vegetables, and nuts are available at both shipping points and receiving markets. The FSI program is conducted at points of origin through cooperative agreements between AMS and State agencies or other cooperating organizations in all 50 States and Puerto Rico. Through the cooperative agreement, the FSI program is administered by the FSI agency in each State. The FSI agency may be a State agency, business association, trade organization, private firm, or institution of higher education. Currently, all FSI agencies are agencies of State Departments of Agriculture except in Arizona, South Dakota, Nebraska, and Indiana. The inspections in these four States are performed by a nonprofit association or an institution of higher education.

Under the terms of the cooperative agreements, AMS provides technical supervision and oversight of shipping point and market inspection services offered by the FSI agencies. A fixed percentage of inspection service fees is used to offset the cost of providing national supervision of the FSI programs. This percentage is negotiated into the cooperative agreement to cover AMS' costs of administering the program. In addition, the responsibilities of AMS and the specific State are subject to negotiation in each agreement. Therefore, each FSI agency may operate the FSI program under unique administrative guidelines that were negotiated into their respective agreement.

Generally, the FSI agency is responsible for the fiscal operations of the FSI program. Specifically, the FSI agency is responsible for maintaining a complete accounting system of inspection receipts and disbursements; establishing and collecting inspection fees; investing reserve funds; providing reports on the operations of the agency; and providing suitable office space, equipment, and clerical services.

The Federal supervisor and the FSI agency are jointly responsible for training FSI program personnel, complying with rules and regulations governing the operation of the program, and ensuring the security of inspection stamps and certificates.

I.B AUDIT OBJECTIVES

The overall objectives of this performance audit are to determine if the FSI agency complied with the terms of the cooperative agreement and if the accounting system appropriately accounted for FSI program funds. Specific objectives include determining whether (1) internal controls are functioning over program revenue collections and disbursement of funds, (2) cash balances represent all cash accounts, reserve funds, and interest earned, and are properly classified in the financial statements, (3) inspection fee revenue and other revenues represent all transactions that occurred during the period and have been properly recorded on a consistent basis, (4) AMS is paid a percentage of the revenues as stated in the cooperative agreement, (5) direct and indirect operating expenses represent only amounts incurred for FSI program operations during the period and are properly authorized and classified, (6) payroll expenses represent all time charges to the FSI program and are properly recorded and classified, (7) all inspectors were properly licensed and all employees were performing FSI program activities, and (8) all inspection certificates and inspection stamps are accounted for and properly secured.

I.C AUDIT SCOPE

The scope of the audit includes selecting transactions and reviewing reports from the operations of the last fiscal year completed by the FSI agency. Since the FSI agency usually follows the State fiscal year, this time period may vary among States. In addition, comparisons should be made with the prior fiscal year to determine consistency between similar periods. Because each State may have unique characteristics, this audit program may need to be amended as applicable. However, the auditors, at a minimum, should perform the audit steps in this audit program for each FSI agency selected for review. Fieldwork will be necessary at the State FSI agency office and field office locations in the State. The number of audit steps performed at the State and field office locations is based on the structure of each FSI agency.

I.D **AUDIT APPROACH**

I.D.1 AUDIT STANDARDS

The General Accounting Office published Government Auditing Standards (1994 Revision) which contained standards for audits of governmental organizations, programs, activities, and functions, and of government funds received by contractors, nonprofit organizations, and other nongovernmental organizations. A performance audit under this audit program includes determining whether the FSI agency is operating in accordance with the cooperative agreement and applicable laws and regulations. Audits of the FSI agency must meet government auditing standards as they relate to performance audits. These standards pertain to the auditor's professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

I.D.2 AUDIT STAFFING

The requirements of this audit program may be completed by the AMS compliance staff or an independent accounting firm. Performance audits of the FSI program must be performed by a person or persons having adequate technical training and proficiency as an auditor, in accordance with the government auditing standards.

The estimated timeframes and cost to complete the audit work may vary in each State depending on how each FSI agency is organized, the condition of the agency's records, number of sample items selected for review, the nature and extent to which errors or irregularities are identified, and the geographical location of the State agency and field offices. Auditors must use professional judgment in performing the steps outlined in this audit program and in identifying and performing any additional coverage necessary to provide reasonable assurance that the agency has complied with the terms of the cooperative agreement.

I.D.3 RESPONSIBILITIES

Agricultural Marketing Service

- Supervise inspectors in the interpretation and application of grades, methods of performing
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inspections, and preparation of Federal and Federal-State certificates and ensure that training regarding performance of Federal-State duties is consistent with Title 7, Code of Federal Regulations (7 CFR), part 51.

- Define qualifications and procedures for evaluating and licensing all inspectors in accordance with 7 CFR, part 51.
- Through the Federal supervisor, issue Federal shipping point licenses to all inspectors determined to be qualified and needed for shipping point inspection services.
- Upon the recommendation of the Federal supervising inspector and subject to Federal agency issued instructions, issue Federal market licenses to qualified market inspectors.
- Furnish the standard Federal inspector's note sheets and certificate forms considered necessary to perform inspections.
- Deposit payments received from the FSI agency for inspections performed under the agreement into the U.S. Treasury to the credit of a Federal trust fund.

Federal-State Inspection Agency

- Employ only inspectors licensed by the Federal supervisor to perform work under the terms of the cooperative agreement.
- Establish and collect shipping point inspection fees for work performed under the cooperative agreement.
- Deposit fees collected for shipping point and terminal market Federal-State inspections and interest earned from the investment of such collections into a Federal-State inspection fund. Maintain a complete accounting of all receipts and all disbursements for all work performed under the agreement.
- Provide AMS with an annual report of the fees collected and the cost of the work conducted, whether paid from fees or from appropriations. Audits should be conducted as provided by the applicable Federal regulations of the AMS, and a copy of all audits shall be furnished to AMS.

- Provide suitable office space, equipment, telephone services, and clerical services to perform the activities described in the cooperative agreement.
 - Pay the reasonable salaries and benefits of Federally licensed shipping point and market inspectors and clerical personnel employed or assigned to work under the agreement from FSI program funds.
 - Pay to AMS a percentage of fees collected for all types of shipping point and market inspection work as specified in the cooperative agreement.
 - Furnish FSI program reports requested by AMS and retain copies of official records for the retention period.
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Auditors

- Review the audit program, cooperative agreement, and applicable Federal and State laws and regulations prior to conducting the audit.
 - Become familiar with the daily operations of the FSI program at the FSI agency being reviewed.
 - Assign sufficient staff to accomplish the objectives of the audit and schedule fieldwork to ensure that FSI agencies are audited within established timeframes.
 - Conduct audits of FSI agencies in accordance with the steps outlined in the applicable sections of this audit program.
 - Adhere to the audit scope of the audit program, but remain alert to possible violations of the cooperative agreement where further testing or an expanded scope may be necessary to qualify the results.
 - Provide supervision and review of auditors' work to ensure that the audit objectives are met, audit steps are properly completed, and findings are fully supported.
 - Prepare a report on the results of the work performed at each FSI agency and promptly issue the report to AMS and the FSI agency.
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In accordance with government auditing standards, a record of the auditor's work is to be retained in the form of working papers. Working papers must be maintained in accordance with standard governmental records retention requirements, and must be made available to the USDA or its representatives upon request. As a general guideline, working papers should:

- Contain a written audit program cross-referenced to the working papers;
- Contain adequate indexing and cross-referencing, schedules, and summaries;
- Contain the audit objectives, scope, and methodology (to include an explanation of sampling criteria that was used).
- Contain adequate documentation of work performed to provide proper support for findings and conclusions;
- Be restricted to matters that are significant and relevant to the objectives of the assignment;
- Be dated and signed by the preparer;
- Contain evidence of supervisory review; and
- Be as legible and neat as practicable.

I.E PERTINENT REGULATIONS AND INSTRUCTIONS

Prior to beginning the audit, the auditor should obtain a copy of the cooperative agreement between AMS and the cooperator governing the operation of the FSI agency. This agreement should specify the responsibilities of the Federal and State agencies, along with the applicable rules and regulations to follow for the operation of the FSI agency. The auditor should obtain and review these rules and regulations. For general guidance, the applicable parts of USDA's Uniform Federal Assistance Regulations (7 CFR 3015) should be reviewed by the auditor.

I.F AUDIT REPORTING

Upon the completion of the audit, the auditor shall prepare a report on the audit results and promptly submit it to the AMS Administrator. The report shall be prepared in accordance with Government Accounting Standards for performance audits. These standards require that the report contain a statement of the audit objectives, a description of the audit scope and methodology, a full discussion of the audit findings and conclusions, the cause of the problem areas noted in the audit, recommendations for actions to correct the problem areas, and the pertinent views of the respective FSI agency officials.

In addition, the report should (1) include a statement that the audit was conducted in accordance with government auditing standards and disclose when applicable standards were not followed, (2) identify the significant internal controls that were assessed, the scope of the auditor's assessment work, and any significant weaknesses found during the audit, (3) include all significant instances of noncompliance and abuse which could result in civil or administrative action and all indications or instances of illegal acts which could result in criminal prosecution, (4) include a listing of any significant issues needing further study and consideration, and (5) include a statement about any pertinent information that was omitted because it was deemed privileged or confidential.

II. AUDIT PROCEDURES

II.A GENERAL

BACKGROUND

The general section of the audit program should allow the auditor to become familiar with the cooperative agreement between AMS and the FSI agency being audited and the laws and regulations which govern the operation of the FSI agency. This section reviews the structure and reporting practices of the organization, but does not focus on detailed testing.

OBJECTIVES

The objectives of the general section are to:

1. Inform the FSI agency officials of the audit objectives, scope, approach, and estimated timeframes of the audit.
2. Determine the organizational structure of the FSI agency, and the accuracy and usefulness of State accounting reports.
3. Obtain copies of the cooperative agreement, and pertinent laws and regulations.

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
II.A.1 Conduct an entrance conference with FSI agency being reviewed. The conference should include both AMS and FSI agency officials.		
a. Discuss the audit objectives, scope, approach, estimated timeframes, and reporting procedures.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<ul style="list-style-type: none"> b. Circulate an attendance sheet to be completed by all persons present at the meeting. Obtain the name, position, title, and telephone number of all persons present. 		
<ul style="list-style-type: none"> c. Obtain the names of key personnel to contact for obtaining information, and for answering questions that may arise during the audit. 		
<ul style="list-style-type: none"> d. Solicit any comments, questions, or suggestions the officials may have concerning the audit. 		
<p>II.A.2 Obtain and review the cooperative agreement, AMS regulations, and other applicable background information that may be utilized during the audit. Identify the FSI agency fiscal year.</p>		
<p>II.A.3 Obtain and review copies of laws and regulations that govern the disbursement and accounting of funds by the FSI agency.</p>		
<p>II.A.4 Document the organizational structure of how the FSI program is operated by the FSI agency.</p> <ul style="list-style-type: none"> a. Obtain an organizational chart. b. Determine if the FSI program is operated as a separate entity or if it is combined with other programs within the cooperating agency. 		
<p>II.A.5 Review recent audits (compliance and financial) and/or program reviews performed on the FSI program and determine:</p> <ul style="list-style-type: none"> a. Scope of these audits/reviews. b. Weaknesses identified during the reviews. c. Resolution of the program violations. 		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
d. Controls in the deficient areas were strengthened. (Perform this step when reviewing the applicable system of the audit.)		
II.A.6 Obtain a copy of the chart of accounts or the fund/unit codes used for the FSI program by the FSI agency.		
II.A.7 Obtain a copy of the FSI agency's last fiscal year financial statements that were sent to AMS.		
a. Reconcile the amounts in the financial statement to the agency's detail ledgers to determine if they are accurate.		
b. Foot the statements to determine if they were properly added.		
c. Obtain explanations for any discrepancies from appropriate personnel.		
d. Determine if all accounts were included in the statements.		
e. If the financial statement was audited, review the opinion.		
II.A.8 Summarize the condition, cause, and effect of any findings identified in performing the audit steps in this section of the audit program.		
II.A.9 After completing the audit steps in sections II A through II F, conduct an exit conference with the applicable FSI agency officials.		
a. Discuss the audit findings and recommendations.		
b. Obtain the agency comments to exceptions noted during the review.		

II.B CASH

BACKGROUND

The cash section of the program focuses on the internal accounting controls necessary for safeguarding the disbursement and receipt of cash. Cash is a sensitive asset because it is particularly vulnerable to direct conversion and unauthorized use by the holder or custodian. This is an appropriate concern of management in developing its internal accounting controls.

Cash may include cash on hand or cash in banks and other depositories. Cash may be kept in depository accounts, general checking accounts, payroll accounts, savings accounts, time deposits and certificates of deposit. Cash receipts from inspection fees are accumulated in depository accounts and general disbursement accounts are used for paying the operating expenses. Payroll accounts which are maintained on a imprest basis have fixed balances and are periodically reimbursed for expenditures.

Some FSI agencies handle the FSI program as a separate entity and maintain bank accounts separate from other State programs or activities. Therefore, the cash accounts can be reconciled between the bank statements and the detailed records of the FSI program. However, at other FSI agencies, the bank accounts for all programs are maintained by the State Treasury, with separate fund balances for each program. For this situation, the fund balance report would be used for reconciling the cash accounts to ensure that FSI program funds were being properly controlled. Therefore, each State's controls over cash will have to be evaluated on an individual basis.

OBJECTIVES

The objectives of this section are to determine whether:

1. The cash balances represent all cash accounts, reserve funds, and interest generated from such funds.
2. The cash balances are properly described and classified, and adequate disclosures are made of restricted or committed funds.
3. Adequate internal controls are in place for safeguarding cash and are functioning as prescribed.

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
II.B.1 Document the procedures used for the FSI program cash management system. Include the following information in the memo: a. Cash disbursement procedures. b. Cash receipt procedures. c. Purchase order/voucher approval system. d. Authorized signatures on account. e. Separation of duties.		
II.B.2 Determine if the FSI program cash accounts are treated separately or if they are combined with other program funds. a. If the cash accounts are treated separately, perform steps 3 through 6 and 10 through 14. b. If the funds are combined, perform steps 7 through 14.		
II.B.3 Obtain a listing of all FSI program bank accounts used by the FSI agency.		
II.B.4 Confirm bank balances of selected cash accounts as of the end of the fiscal year selected for review. Confirm all general disbursing accounts, accounts with large balances, and any time deposits or certificates of deposit. Also, ask for any contingencies or liabilities. a. Prepare a bank confirmation request for each account selected. The request should be signed by an authorized FSI agency representative. b. Prepare a confirmation control of the accounts confirmed. Be sure to include the date of first mailing and any subsequent mailing dates.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<p>c. Mail the bank confirmations prepared in step 4 a above. The confirmations should be mailed at a location off the FSI agency's premises. The auditor's business office should be used as the return address.</p>		
<p>d. All replies should be logged into the confirmation control and second requests should be sent after 10 working days.</p>		
<p>e. Cross reference any contingency to the appropriate section of the financial statements.</p>		
<p>II.B.5 Determine the accuracy and validity of the bank reconciliations for the FSI agency.</p> <p>a. Obtain monthly bank reconciliations for all cash accounts with significant balances for the last month of the fiscal year being reviewed.</p> <p>b. Trace the bank balance for each account included in the reconciliation to the related bank confirmation and to the bank statement. Reconcile any differences.</p> <p>c. Trace the book balance for the accounts included in the reconciliations to the detailed ledger accounts.</p> <p>d. Review the reconciling items (deposits in transit or outstanding checks) for validity and accuracy, and obtain explanations for any unusual or significant items noted. <u>NOTE:</u> In determining the validity of the reconciling items, trace the deposits in transit and outstanding checks to subsequent bank statements. Investigate any exceptions noted.</p>		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
II.B.6 Compare the balance of each significant cash and cash equivalent account at the end of the last fiscal year with the comparable balance for the preceding fiscal year. Review any significant fluctuations and obtain explanations.		
II.B.7 Review the FSI program fund balance maintained by the State Treasury. <ul style="list-style-type: none"> a. Identify the fund balance account of the FSI program. b. Determine if the fund balance for the FSI program is listed separate from the other State programs within the State's fund balance report. c. Determine if the fund balance is invested. If so, identify the type of investments and discuss with AMS whether any restrictions apply. d. Document the method for determining interest due each program from the State Treasury for funds invested. In addition, determine if interest earned was credited back to the FSI program. 		
II.B.8 Obtain the State's fund balance report for the last fiscal year for the fund code associated with the FSI program and perform the following: (This report should include data similar to a beginning cash balance + cash revenues - expenditures = ending cash balance + accounts receivable - encumbrances = current fund balance). <ul style="list-style-type: none"> a. Foot/crossfoot the State's fund balance report. b. Trace the beginning cash balance to the ending cash balance of the previous fiscal year fund balance report to determine if the beginning balance was correct. 		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<p>c. Trace total balances of revenues, expenditures, accounts receivable, and encumbrances to the yearend financial statements. If these statements do not disclose individual FSI accounts, then trace the balances to FSI detail report balances that are included in the combined State agency financial statements. This will determine if amounts used in the calculation of a new fund balance were correct.</p>		
<p>d. Obtain explanations for any discrepancies noted.</p>		
<p>II.B.9 Review the FSI program reconciliation of the cash balance from the fund balance report for the last month of the fiscal year.</p> <p>a. Verify the clerical accuracy of the reconciliation.</p> <p>b. Trace the ending cash balance to the State Treasury fund.</p> <p>c. Review any unusual reconciling items pertaining to the FSI program.</p>		
<p>II.B.10 Determine that the receipts from inspection fees were properly credited to the FSI program accounts or funds. (Note: When checks are received though the mail, the daily receipts should be logged into a daily receipt book.)</p> <p>a. Obtain the daily receipts log books for the FSI program and judgmentally select 15 receipts throughout the last fiscal year to review.</p>		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<p>b. Trace selected receipts from the log book to deposit slips noting that the receipts were properly deposited (e.g., correct account number and amount). Also, note if the deposits were made daily. Investigate any unusual delays in making deposits. (Receipts should be deposited daily into bank accounts.)</p>		
<p>c. Trace selected receipts from the deposit slips to the general ledger/fund balance entries to determine that receipts were properly credited to the FSI program. (Note: The receipts should be coded to a FSI program review account.)</p>		
<p>II.B.11 Analyze the reserve fund for the past fiscal year.</p>		
<p>a. Determine the amount of reserve funds available as of the end of the fiscal year. (If the FSI program is a separate entity, the reserve account will equal all cash accounts plus accounts receivable less accounts payable plus any savings accounts. When the FSI program funds are maintained by the State Treasury, the reserve funds will be the fund balance account.)</p>		
<p>b. Divide the total operating expenses for the last fiscal year by 12 to determine the monthly average operating expenses.</p>		
<p>c. Divide the reserve funds by the monthly average operating expenses to determine the number of months reserve of surplus funds.</p>		
<p>d. Determine if the monthly reserve is reasonable. (AMS Directive 408.1, "Financial Guidelines for Cooperative Grading Programs," provides guidelines for establishing and maintaining reserve funds.)</p>		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
e. Determine whether the user fees were adjusted based on the reserve balance. (Note: Obtain agency policy on how inspection fees are adjusted for maintaining reasonable reserve funds.)		
f. Determine if the reserve funds were invested. If so, identify the type of investments and discuss with AMS whether any restrictions apply. In addition, determine if interest income earned by the reserve fund was credited back to the FSI program.		
II.B.12 Obtain a schedule/report detailing interest and investment income earned for the last fiscal year.		
a. Reconcile the totals of interest and investment income to the applicable revenue accounts.		
b. Examine documents to support interest earned during the period.		
c. Perform a reasonableness test for the last fiscal year on interest income. Calculate the average interest rate and principal balance for the time period. From these figures, calculate the average yearly interest. Compare this total to actual investment income listed on the financial statements/revenue accounts for a reasonableness determination.		
II.B.13 Determine if there were any transfers between the State general fund and the FSI agency fund balance. If so, evaluate the State procedures for fund transfers involving the principal balance of the fund and the interest earned on the principal.		

AUDIT STEPS		WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
	<p>a. If FSI program funds were transferred to the State general fund, compute the amount transferred for the current fiscal year. Review source documents and accounting records as needed to ascertain the accounting for these transactions.</p>		
	<p>b. Document the final disposition of the funds.</p>		
<p>II.B.14</p>	<p>Determine if there are any cash (currency) receipts of inspection fees by the inspectors.</p> <p>a. Identify the control procedures under which cash collections are handled.</p> <p>b. Test a sample of cash transactions to determine if the controls identified are functioning as prescribed.</p> <p>c. Review the controls identified to determine if they are adequate.</p>		
<p>II.B.15</p>	<p>Determine if a petty cash fund is used by the FSI agency.</p> <p>a. If so, perform a cash count and reconciliation.</p> <p>b. Review the reimbursement of the fund for a select period to determine if expenditures are properly supported by receipts and properly authorized.</p> <p>c. Review the expenses of the fund to determine if the expenditures were related to the FSI program.</p> <p>d. Review the controls over the fund to determine if there is a proper separation of duties.</p>		
<p>II.B.16</p>	<p>Summarize the condition, cause, and effect of any findings identified in performing the audit steps in this section of the audit program.</p>		

II.C REVENUE

BACKGROUND

Revenues are generated from the grading services of fresh fruits and vegetables and other products. Inspectors perform the grading services either at shipping point or terminal market locations. An inspection certificate is issued by the inspector which identifies the quality of the product. The inspection fees are recorded on the inspection certificates for fruits, vegetables, nuts, and other related products by the inspector. The inspection fees are computed based on a package, hundredweight, or hourly basis as specified by State and Federal regulations and instructions. Generally, the inspection certificates are then input into the accounting system which generates the invoices and updates the revenue and accounts receivable. The invoices are used for billing the customers.

A Consolidated Farm Service Agency (CFSA, formerly Agriculture Stabilization and Conservation Service) form is used for inspecting farmer stock peanuts because grade reports are used in a CFSA price subsidy program. The inspection fee for farmer stock peanuts is computed based on tonnage. The tonnage is computed and recorded on the inspection form but the inspection fee is not listed on the form. This information is input into the CFSA database. This information must be downloaded on a computer tape and converted to an inspection fee using a computer software package or some other method by the State FSI agency. This information is then used for billing customers and recording revenues.

The shipping point inspection fees are set by each FSI agency. In addition, the accounting system may be different for processing certificates, billing customers, and reporting revenues in each State depending on the structure of the FSI agency. The FSI program may be operated separately from the State using its own system of revenue accounts, or the FSI program may be operated through the State Treasury using fund accounting. Furthermore, the internal controls for safeguarding the system may be unique in each State. Therefore, each system of controls will have to be evaluated based on its own merit. Cash may be accepted by inspectors instead of following the normal billing process. Cash is usually accepted from slow paying customers, one-time customers, or customers without a billing address. Every State may have different controls for handling these cash transactions.

OBJECTIVES

The objectives are to determine whether:

1. Inspection fee revenue and other revenues represent all transactions that occurred during the period and have been properly recorded on a consistent basis.
2. Adequate internal controls are in place for the billing and collection of FSI program revenues and the controls are functioning as prescribed.
3. The inspections are performed by licensed inspectors.
4. AMS is paid a percentage of fees from FSI program revenues as stated in the cooperative agreement.

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
II.C.1 Identify the FSI agency controls over the billing and collection of user fees.		
a. Determine if the controls identified are functioning as prescribed.		
b. Review the controls identified to determine if they are adequate. (Note: Steps 1 a and 1 b may need to be answered after performing steps 2 through 7.)		
II.C.2 Obtain a listing of all types of certificates that are issued by the FSI agency for inspections. Review the log of certificates issued and determine which type of certificates generate the most revenue.		
II.C.3 For each type of certificate, identify the universe of inspection certificates issued for the last fiscal year.		
II.C.4 Select a random sample of 50 certificates.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<p>a. Weight the sample according to the number of each type of certificate issued. If 25 percent of one type of certificate was issued, then 25 percent of these type certificates should be included in the sample.</p>		
<p>b. Using a random number table, select the certificate numbers using all certificates according to the allocation in step 4 a above.</p>		
<p>c. Circle the numbers selected on the random number table.</p>		
<p>II.C.5 From the sample items selected, schedule the following information from the certificates (see exhibit A):</p> <p>a. Sample Number</p> <p>b. Certificate Number</p>		
<p>c. Customer Name</p> <p>d. Certificate Date</p> <p>e. Inspector Name</p> <p>f. Inspection Fee</p>		
<p>II.C.6 Test the sample items for the following attributes (see exhibit A):</p> <p>a. The proper inspection fee was computed on the inspection certificate.</p> <p>b. The inspection was performed by an employee of the FSI agency licensed to perform inspections of the items on the certificate.</p> <p>c. The inspection certificate was properly posted to the invoice noting agreement of the certificate date, certificate number, description and amount.</p>		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<p>d. The payment received from the vendor was properly credited to the correct invoice and recorded on the deposit voucher and deposited in the bank account.</p>		
<p>II.C.7 Obtain a listing of inspection certificates that were written days before and after the yearend balance sheet date.</p>		
<p>a. Examine the dates on the invoices generated from the certificates.</p>		
<p>b. Trace a selection of invoices to the inspection and accounts receivable records for the appropriate period to ensure that transactions were recorded in the proper period.</p>		
<p>II.C.8 Review the Federal State Cooperative Agreement Monthly Financial Reports (FV-218) for the last year.</p>		
<p>a. Determine if all the revenues were included in the base fee calculation as was stated in the cooperative agreement.</p>		
<p>b. Review the cooperative agreement to determine if the correct fee percentage was used in the fee calculation.</p>		
<p>c. Recompute the quarterly or monthly fees remitted to AMS.</p>		
<p>d. Determine if all funds due AMS have been properly remitted to the agency.</p>		
<p>II.C.9 Perform an analysis of revenues between the last 2 fiscal years. If the FSI program is separate from other State programs, use the income statement accounts. However, if the FSI program is combined with other State programs, use the revenue detail fund reports that correspond to the FSI program. (See exhibit B.)</p>		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
a. Obtain revenue section of the income statements/detail fund reports for the FSI agency for the last 2 fiscal years.		
b. List each category of revenue balance for the last fiscal year.		
c. List each comparable balance for the preceding year.		
d. Compute the percentage change between fiscal years.		
e. Obtain explanations for any percentage changes greater than 25 percent from appropriate officials and trace to supporting documentation if possible.		
II.C.10 Review budgeted revenues. (See exhibit B.)		
a. Obtain the revenue budgets/estimated revenue fund reports for the last fiscal year for the FSI program.		
b. Compute the percentage difference between each budgeted revenue category and the actual revenues.		
c. Obtain explanations for any percentage changes greater than 25 percent from appropriate officials and trace explanations to supporting documentation if possible.		
II.C.11 Review inspection fees. (Note: Some of the answers to these steps may have been obtained in audit steps II B 11 d and e.)		
a. Document how inspection fees are established by the FSI agency.		
b. Determine when inspection fees were last adjusted.		
c. Determine if current FSI program fees are sufficient to cover current program costs. (See steps II B 11 d and e.)		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
II.C.12 Review accounts receivable. <ul style="list-style-type: none"> a. Obtain an aging of accounts receivable as of the audit date. b. Determine if any amounts over 90 days old are collectible. c. Determine if any amounts should be written off as bad debts. 		
II.C.13 Review bad debt write offs. <ul style="list-style-type: none"> a. Document the procedures used to collect bad debts. b. List the account receivable amounts that were written off as bad debts. c. Determine the reasons why the amounts were not collectible. 		
II.C.14 Summarize the condition, cause, and effect of any findings identified in performing the audit steps in this section of the audit program.		

II.D EXPENDITURES

BACKGROUND

The expenditure section of the program represents the functions required to acquire goods and services from third parties, other than employees. This process includes issuing purchase orders for the acquisition of goods and services and paying invoices through a controlled disbursement system. The expenses will be processed either through a separate disbursement system using accounts payable if the FSI agency is separate from the State or through the State's disbursement system using encumbrances if the FSI agency is operated through the State agency. In each State, the controls for operating the disbursement system may be different and will have to be evaluated on their own merit.

OBJECTIVES

The objectives are to determine whether:

1. Operating expenses represent all amounts incurred for the FSI program in the period of the entity's operations.
2. Direct and indirect operating expenses incurred for the FSI program are allowable costs and are properly authorized and classified.
3. Internal controls are in place for the authorization and payment of expenditures and are functioning as prescribed.

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
II.D.1 Through discussions with applicable personnel, document the controls over the expenditure process and flowchart if considered necessary. Include the following information: <ol style="list-style-type: none"> a. Purchase order approval process. b. Check approval process. c. Separation of duties. d. Access restrictions. 		
e. Other procedures to ensure proper control over cash disbursements and resources purchases.		
II.D.2 From the controls identified in step 1, determine the following: (This audit step may need to be answered after completing steps 3 through 7.) <ol style="list-style-type: none"> a. Determine if the controls identified are functioning as prescribed. 		
b. Review the controls identified to determine if they are adequate.		
II.D.3 Determine if the FSI agency has its own cash disbursement system or if the cash function is operated through the State Treasury. <ol style="list-style-type: none"> a. Perform steps 4 through 7 if the FSI agency has its own cash disbursement function. 		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
b. Perform steps 8 through 12 if the cash function is operated through the State Treasury.		
II.D.4 Determine all the bank accounts that are used for writing checks during the last fiscal year. (A listing of bank accounts was obtained in audit step II B 3.)		
a. On each account, list the starting and ending numbers of these checks.		
b. Total the number of checks issued for each bank account.		
c. For accounts other than payroll, determine the percent of checks written on each account.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<p>II.D.5 Select a random sample of 50 checks. Do not include payroll checks in the sample.</p> <p>a. Weight the sample according to the number of checks written on each account. (If 25 percent of the checks was written out of one account, select 25 percent of the sample from this account.)</p> <p>b. Using a random number table, select the check numbers from each account according to the allocation in step 5 a above.</p> <p>c. Circle the check numbers selected on the random number table.</p>		
<p>II.D.6 For the sample items selected, schedule the following information from the check register (see exhibit C):</p> <p>a. Check Number</p> <p>b. Payee</p> <p>c. Check Amount</p> <p>d. Check Date</p> <p>e. Description</p>		
<p>II.D.7 Test the sample items for the following attributes and document any discrepancies noted during the review (see exhibit C).</p> <p>a. The canceled check was signed by a FSI agency employee with check approval authority.</p> <p>b. The canceled check contained the endorsement of the payee.</p> <p>c. The information on the canceled check was in agreement with the information listed on the check copy or check register.</p> <p>d. The expenditure was properly supported by a vendor invoice or other supporting documentation.</p>		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
e. The expense was properly approved for payment by an authorized individual. (Purchase order request or other approval system.)		
f. The expense was coded to the correct expense category in the financial statements.		
g. The expense was reasonable and allowable in accordance with OMB Circulars A-87, "Cost Principles for State and Local Governments," or A-122, "Cost Principles for Nonprofit Organizations."		
II.D.8 Through discussions with applicable personnel, determine the appropriate documentation (purchases journal, check register, purchase orders, expenditure journal entries) for determining the universe of FSI program expenditures processed through the State agency cash disbursement and procurement system.		
II.D.9 Review the applicable documentation identified in step 8, and determine the universe of expenditures for the last fiscal year.		
a. If the universe can be determined, use a random number table to select 50 expenditures to review. If there is a large variance in expenditure amounts, stratify the expenditures (large, medium, and small amounts) and randomly select a representative number from each stratum.		
b. If the universe cannot be easily determined, judgmentally select 50 transactions to be reviewed. Select large, medium, and small amounts for review. Also select transactions from each month.		
II.D.10 For the expenditure sample items selected, schedule the following information from the check register (see exhibit D):		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<ul style="list-style-type: none"> a. Voucher Number b. Payee c. Expenditure Amount d. Voucher Date e. Description of Expenditure 		
<p>II.D.11 Test the sample items for the following attributes (see exhibit D):</p> <ul style="list-style-type: none"> a. The expenditure was properly supported by a vendor invoice or other supporting documentation. b. The information on the voucher and/or check copy was in agreement with the information on the vendor invoice. c. The expenditure was properly approved for payment. d. The expense was coded to the correct expense category in the expenditure detail fund report. e. The expenditure was reasonable and allowable in accordance with OMB Circular A-87 (A-122 for nonprofit organizations). 		
<p>II.D.12 Determine if an overhead rate was assessed by the State to the FSI program.</p> <ul style="list-style-type: none"> a. Determine how the overhead rate was set by the State and how it is computed. b. Determine if it is in accordance with the cooperative agreement and OMB Circular A-87 (A-122 for nonprofit organizations). c. Document the amount of overhead paid to the State by the FSI program for the last fiscal year. 		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
d. Document the overhead services and benefits that were provided by the State for the last fiscal year.		
e. Evaluate whether the overhead rate is reasonable.		
f. Recalculate the overhead paid to the State to determine if the correct amount was assessed to the FSI program.		
II.D.13 Perform an analysis of operating expenses between the last 2 fiscal years. (See exhibit E.)		
a. Obtain the income statements/expenditure detail fund report for the FSI agency for the last 2 fiscal years.		
b. List the balances of operating expenses greater than \$5,000 for the last fiscal year.		
c. For the balances selected in step 13 b, list the comparable balance for the preceding fiscal year.		
d. Compute the percentage change between fiscal years.		
e. Obtain explanations for any percentage changes greater than 25 percent from appropriate officials and trace to supporting documentation if possible.		
II.D.14 Review budgeted expenditures. (See exhibit E.)		
a. Obtain the expenditure budgets for the last fiscal year.		
b. Compare the budgeted line item expenditure amounts with the actual expenditures for the same line item categories.		
c. Compute the percentages between the line item budgeted amounts with the actual expenditures.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<p>d. Obtain explanations for any percentage changes greater than 25 percent from appropriate officials and trace explanations to supporting documentation if possible.</p>		
<p>II.D.15 Summarize the condition, cause, and effect of any findings identified in performing the audit steps in this section of the audit program.</p>		

II.E PAYROLL

BACKGROUND

The number of employees on the payroll will fluctuate with the season of the year. A core staff of employees is maintained during the entire year with additional employees hired as the inspection activity increases. This inspection activity will increase and decrease in each State based on the time of the year that State's major crops are ready for harvest. Each State will have different crops that will be ready for harvest at different times of the year.

The Federal supervisors are employees of the Federal Government. The FSI agency employees are State employees or third-party employees licensed by USDA and assigned to the work by the FSI agency and should follow the applicable State laws for employment practices; however, they must also satisfy Federal requirements as specified in the cooperative agreements. In some States, the FSI program is separate and employees only work on the FSI program. However, in other States, employees may work on other State programs in addition to the FSI program. An overhead assessment is usually made to the FSI program to recover the State's indirect cost in administering the program. The payroll may be processed through the State's payroll system or through a separate FSI payroll system. In each case, the internal controls for payroll may be different. Therefore, each system of controls will have to be evaluated on an individual basis.

OBJECTIVES

The objectives of this section are to determine whether:

1. Payroll expenses represent all time charges to the FSI program and are properly authorized and classified.
2. All employees on the payroll were performing FSI program work for the hours charged.
3. All inspectors on the payroll were properly licensed.
4. Employees were paid according to their job classifications which accurately reflect their current duties.
5. Internal controls over the submission of time charges and payment of salaries are adequate and functioning as prescribed.

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
II.E.1 Document the procedures for processing payroll, including overtime, and flowchart if necessary.		
II.E.2 Review the monthly financial statements/voucher register and determine the month with the highest payroll cost for the FSI program. If the payroll is paid monthly, select this month for review. If the payroll is paid more than once a month, select the largest payroll amount of the month for review. Trace the total amount of this payroll selected to the general ledger/expenditure detail fund reports to determine that payroll was included in the financial statements.		
II.E.3 Randomly select 25 percent of employees on the payroll for review.		
a. Obtain the payroll register or time sheets for the payroll selected in step 2 above.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<ul style="list-style-type: none"> b. Number the employees on the payroll register. 		
<ul style="list-style-type: none"> c. Determine the number of employees to be selected (25 percent multiplied by the total number of employees). 		
<ul style="list-style-type: none"> d. Using the random number table, select the number of employees obtained in step 3 c and list these names on a spreadsheet. 		
<p>II.E.4 For the employees selected, obtain the time sheets or other similar information and set up a spreadsheet for testing the payroll. (Note: Payments may be made to the wrong person and disbursements may be recorded in the wrong amount because of clerical or mechanical errors which could result in misstated cash, expenses, and accrued liabilities.) Include the following information (see exhibit F):</p> <ul style="list-style-type: none"> a. Employee name b. Regular hours c. Overtime hours d. Holiday hours e. Work area f. Gross pay amount 		
<p>II.E.5 Test the payroll using the spreadsheet prepared in step 4 for the following attributes (see exhibit F):</p> <ul style="list-style-type: none"> a. Base salary paid to the employees was authorized in the personnel files or other form of documentation. b. Overtime paid to the employees was properly computed based on the number of overtime hours reported. 		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
c. Hours on the overtime sheets were properly added and subsequently approved by the supervisor.		
d. Employee's time was charged to the proper work code.		
e. Time cards or other documentation support hours worked.		
f. Personnel files contain evidence of the existence of the employees.		
g. Employee was properly licensed by Federal supervisor (if applicable).		
h. Employee performed work that was in agreement with the job title and pay classification in the employee personnel file.		
i. Employee signature on paid checks was in agreement to signatures in the personnel files.		
II.E.6 Obtain the overtime sheets related to the sample pay period and review for the following: a. Authorized by the customer (if applicable). b. Approved by the supervisor.		
II.E.7 From the overtime sheets obtained in step 6, perform the following: a. Recompute the number of hours worked. b. Recompute the total number of hours from more than one overtime sheet if applicable.		
II.E.8 Obtain a copy of the payroll register for the same payroll period in the preceding year as the sample payroll period selected in step 2.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
II.E.9 Perform a comparative analysis of the salaries from the current period. (Note: Unauthorized or fraudulent payments may be made resulting in an understatement of cash and liabilities and overstatement of payroll expenses.) (See exhibit G.)		
a. From the payroll register obtained in step 3 a above, total the salaries, pay rates and number of employees for the sample period.		
b. Compute the average salary/rates for the current period by dividing the total salaries and pay rates by the number of employees.		
c. Obtain the payroll register of the same sample period for the preceding fiscal year.		
d. Perform steps 9 a and 9 b above to the register obtained in step 9 c.		
e. Compare the average salary/rates for the sample payroll with the average salary rates for the same payroll in the preceding fiscal year.		
f. Obtain explanations for any percentage changes greater than 25 percent from appropriate officials and trace to supporting documentation if possible.		
II.E.10 Perform an analysis of budgeted versus actual salaries. (See exhibit G.)		
a. Obtain budgeted salaries for the current fiscal year.		
b. Compare the average salary rates for the current period obtained in step 9 b above with the budgeted amounts.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<ul style="list-style-type: none"> c. Investigate any percentage changes greater than 25 percent by obtaining explanations from appropriate officials and tracing to supporting documentation. 		
<p>II.E.11 Perform a comparative analysis of hourly wage cost. (See exhibit G.)</p>		
<ul style="list-style-type: none"> a. Divide the total payroll cost by the labor hours for the current fiscal year sample payroll period selected in step 2. 		
<ul style="list-style-type: none"> b. From the preceding fiscal year payroll register of the same sample time period divide the total payroll cost by the total labor hours. 		
<ul style="list-style-type: none"> c. Compare the percentage change in total number of labor hours with the percentage change in payroll costs between the current and preceding fiscal year. (Note: A change in labor hours should correspond to a change in payroll costs.) 		
<ul style="list-style-type: none"> d. Investigate any unusual variances. 		
<p>II.E.12 Perform a comparative analysis of average payroll cost. (See exhibit G.)</p>		
<ul style="list-style-type: none"> a. Divide the total payroll cost by total number of employees for the current fiscal year. 		
<ul style="list-style-type: none"> b. Divide the total payroll cost by total number of employees for the preceding fiscal year. 		
<ul style="list-style-type: none"> c. Compare the average payroll cost per employee for the current period with comparable amounts for the preceding period. 		
<ul style="list-style-type: none"> d. Investigate any significant fluctuations (variances greater than 25 percent). 		
<p>II.E.13 Supervisory review of payroll.</p>		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
a. Contact the Federal supervisor assigned to the FSI program and ask him/her to review the payroll register for the selected sample obtained in step 3.a.		
b. The Federal supervisor should scan the payroll register and list any questionable employee names concerning time period employed and existence of employees and duties performed.		
c. The names should be reviewed with the assigned immediate supervisor to determine duties performed and time period worked.		
d. Contact the employee (if possible) to determine if they were working on the FSI program during that time period and document the duties they performed.		
e. Determine if any employees are paid full-time by the FSI program and spend a few hours a day or week working on non-FSI programs.		
II.E.14 Summarize the condition, cause, and effect of any findings identified in performing the audit steps in this section of the audit program.		

II.F CERTIFICATES AND STAMPS

BACKGROUND

The inspection certificates are shipped to the FSI agency in each State from either the printer or central supply. Several of the boxes are usually opened when received to determine quality of certificates. The boxes of certificates should be numbered when received with each box containing a unique number. The certificates should be kept in an area that is secure at all times and is not accessible by inspectors. There should be an individual in each State responsible for the issuance and

security of the certificates. A log should be kept that tracks the certificate from the time it is received through the time it is written by the inspector and entered into the revenue system.

Each State is responsible for acquiring their own inspection stamps. These stamps are to be kept in a secure location when in the FSI office or when in plant facilities. The inspection stamps are used to establish positive lot identification on certain produce and peanuts after inspection. On shell stock peanuts, positive lot identification is a requirement. Each stamp should have a different identification number. However, two stamps may have the same identification number when one is retained in secured storage as a backup.

OBJECTIVES

The objectives are to determine whether:

1. The inspection certificates and stamps are properly secured.
2. All inspection certificates and stamps are properly accounted for.

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
II.F.1 Review the FSI agency controls over the handling of inspection certificates. <ul style="list-style-type: none"> a. Determine if a log is used to account for the certificates. b. Determine if there is a custodian of the certificates at each storage site. c. Determine if the controls are functioning as prescribed. d. Determine if the controls are adequate. 		
II.F.2 Determine if the opened and unopened boxes of inspection certificates are kept in a secure location not accessible by inspectors.		
II.F.3 If a log is used to account for the inspection certificates, obtain the log and review for the following: <ul style="list-style-type: none"> a. All certificates are entered into the log. 		

AUDIT STEPS		WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
	b. Lost, stolen, voided or destroyed certificates are noted in the log.		
	c. A reconciliation of all issued and unissued inspection certificates is performed.		
	d. All certificates are accounted for.		
II.F.4	Document how many inspection certificates were lost, stolen, or destroyed in the last fiscal year.		
	a. Determine procedures used to identify certificates as lost, stolen, or destroyed.		
	b. Determine if these certificates are timely reported.		
	c. Evaluate the procedures used to dispose of destroyed certificates.		
II.F.5	Determine if the original copies of voided certificates are kept on file with the copies of the issued certificates.		
II.F.6	Determine if cash sales were involved regarding the certificates that were lost or stolen. (Note: The certificate could be written for cash, reported stolen, and the cash kept by the inspector.)		
	a. Review the log to determine certificate numbers issued before and after the lost or stolen certificates.		
	b. Review these certificate numbers to determine if they were for cash inspections.		
	c. If they were for cash inspections, contact supervisor and inspector regarding how the certificate was lost or stolen.		
II.F.7	Determine if any inspectors are losing inspection certificates on a consistent basis.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
a. If so, contact inspector and immediate supervisor to determine reasons for loss of certificates.		
b. Determine if inspector handles a large number of cash inspections.		
II.F.8 Obtain a listing of inspection stamps that are used by the FSI agency and review the FSI agency controls over the security of these stamps.		
a. Determine if the controls are functioning as prescribed.		
b. Determine if the controls are adequate.		
II.F.9 Review the list of inspection stamps with the custodian of the stamps and obtain the following:		
a. Location of each inspection stamp.		
b. Name of inspector that stamp is assigned to.		
c. Security of location in which stamps are kept.		
II.F.10 Randomly select 25 percent of the stamps to review.		
a. Telephonically call the inspector in charge of the stamp and verify the house and identification number.		
b. Ask the inspector to describe the location in which the stamp is secured.		
c. Determine if the stamps are properly secured.		
II.F.11 Perform a field visit to two locations of the stamps.		
a. Determine if the controls over stamps are in place as stated by inspectors in phone conversations.		

AUDIT STEPS	WORKPAPER REFERENCE	AUDITOR'S INITIALS AND DATE
<p>b. Document the site visits in a memo.</p>		
<p>II.F.12 Summarize the condition, cause, and effect of any findings identified in performing the audit steps in this section of the audit program.</p>		

INSPECTION CERTIFICATE TEST

SAMPLE NUMBER	CERTIFICATE NUMBER	CUSTOMER NAME	CERTIFICATE DATE	INSPECTOR NAME	INSPECTION FEE	INSPECTION			
						A	B	C	D
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
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32									
33									
34									

EXHIBIT A
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INSPECTION CERTIFICATE TEST

SAMPLE NUMBER	CERTIFICATE NUMBER	CUSTOMER NAME	CERTIFICATE DATE	INSPECTOR NAME	INSPECTION FEE	INSPECTION			
						A	B	C	D
35									
36									
37									
38									
39									
40									
41									
42									
43									
44									
45									
46									
47									
48									
49									
50									

X - The sample items were tested and determined to be in agreement with the attribute.

A - The proper inspection fee was computed on the inspection certificate.

B - The inspection was performed by a licensed inspector.

C - The inspection certificate was properly posted to the invoice noting agreement of the certificate date, certificate number, description, and amount.

D - The payment received from the vendor was properly credited to the correct invoice and recorded on the deposit voucher and deposited in the bank account.

EXHIBIT A
Page 2 of 2

REVENUE ANALYSIS

ACCOUNT TITLE/ CLASSIFICATION	REVENUE		BALANCE PRECEDING FISCAL YEAR	PERCENTAGE CHANGE	EXPLANATION NUMBER	BUDGETED REVENUE	PERCENTAGE CHANGE	EXPLANATION NUMBER
	LAST FISCAL YEAR							

EXPLANATIONS

EXHIBIT B

FSI AGENCY CASH DISBURSEMENT TEST

ITEM NUMBER	CHECK NUMBER	PAYEE	CHECK AMOUNT	CHECK DATE	DESCRIPTION	A	B	C	D	E	F	G
1												
2												
3												
4												
5												
6												
7												
8												
9												
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34												
35												

EXHIBIT C
Page 1 of 2

FSI AGENCY CASH DISBURSEMENT TEST

ITEM NUMBER	CHECK NUMBER	PAYEE	CHECK AMOUNT	CHECK DATE	DESCRIPTION	A	B	C	D	E	F	G
36												
37												
38												
39												
40												
41												
42												
43												
44												
45												
46												
47												
48												
49												
50												

X - Sample items were tested and determined to be in agreement with the attribute.

ATTRIBUTES:

- A - The canceled check was signed by a FSI employee with check approval authority.
- B - The canceled check contained the endorsement of the payee.
- C - The information on the canceled check was in agreement with the information listed on the check copy.
- D - The expenditure was properly supported by a vendor invoice or other supporting documentation.
- E - The expense was properly approved for payment by an authorized individual.
- F - The expense was coded to the correct expense category in the financial statements.
- G - The expense was reasonable and related to the FSI program.

EXHIBIT C
Page 2 of 2

STATE TREASURY CASH DISBURSEMENT TEST

ITEM NUMBER	CHECK NUMBER	PAYEE	CHECK AMOUNT	CHECK DATE	DESCRIPTION	A	B	C	D	E
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										
11										
12										
13										
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35										

EXHIBIT D
Page 1 of 2

STATE TREASURY CASH DISBURSEMENT TEST

ITEM NUMBER	CHECK NUMBER	PAYEE	CHECK AMOUNT	CHECK DATE	DESCRIPTION	A	B	C	D	E
36										
37										
38										
39										
40										
41										
42										
43										
44										
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X - Sample items were tested and determined to be in agreement with the attribute.

ATTRIBUTES:

- A - The expenditure was properly supported by a vendor invoice or other supporting documentation.
- B - The information on the check copy was in agreement with the information on the vendor invoice.
- C - The expense was properly approved for payment.
- D - The expenditure was coded to the correct expense category in the financial statements.
- E - The expense was reasonable and related to the FSI program.

EXHIBIT D
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EXPENSE ANALYSIS

ACCOUNT TITLE/ CLASSIFICATION	EXPENSE		BALANCE PRECEDING FISCAL YEAR	PERCENTAGE CHANGE	EXPLANATION NUMBER	BUDGETED EXPENSES	PERCENTAGE CHANGE	EXPLANATION NUMBER
	LAST FISCAL YEAR	FISCAL YEAR						

EXPLANATIONS

EXHIBIT E

PAYROLL TEST

NAME	EMPLOYEE NUMBER	WORK AREA	REGULAR HOURS	OVERTIME HOURS	HOLIDAY HOURS	GROSS PAY	UNIVERSE SAMPLE NUMBER																	
							A	B	C	D	E	F	G	H	I									

X - The sample items were tested and determined to be in agreement with the attribute.

ATTRIBUTES

- A - The base salary paid to the employees was authorized in the personnel files or other form of documentation.
- B - The overtime paid to the employees was properly computed based on the number of overtime hours worked.
- C - The hours on the overtime sheet were properly added and subsequently approved by the supervisor.
- D - The employee's time was charged to the proper work code.
- E - Time cards or other documentation support hours worked.
- F - Personnel files contain evidence of the existence of the employees.
- G - Employee was properly licensed.
- H - Employee performed work that was in agreement with the job title and pay classification in the employee personnel file.
- I - Employee signature on paid checks was in agreement to signatures in the personnel files.

EXHIBIT F

SALARY ANALYSIS

ACCOUNT TITLE/ CLASSIFICATION	ACTUAL		SALARIES PRECEDING FISCAL YEAR	PERCENTAGE CHANGE	BUDGETED AMOUNTS	PERCENTAGE CHANGE
	LAST FISCAL YEAR					
TOTAL SALARIES (SAMPLE PERIOD)						
TOTAL EMPLOYEES (SAMPLE PERIOD)						
AVERAGE SALARIES						
TOTAL PAY RATES (SAMPLE PERIOD)						
TOTAL EMPLOYEES (SAMPLE PERIOD)						
AVERAGE PAY RATES						
TOTAL SALARIES (SAMPLE PERIOD)						
TOTAL HOURS (SAMPLE PERIOD)						
AVERAGE HOURLY WAGE COST						
PAYROLL COST (FISCAL YEAR)						
NUMBER OF EMPLOYEES (FISCAL YEAR)						
PAYROLL COST PER EMPLOYEE						

EXHIBIT G

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