

Shoreline Community College

General

Code: S3Shoreline-FS21
Name: Shoreline Community College
Group: Financial Audit
Type: S3-Community/Technical College
Location: State
Scope: Not Applicable

Team

Lead: Erin Anderson
Manager: Steven Wendling

Procedures

B.1.PRG - GAAP

Procedure Step: Controls - Cash and Investment Confirmation
Prepared By: KJM, 3/13/2022
Reviewed By: SHW, 4/20/2022

Purpose/Conclusion.

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Purpose:

To gain an understanding of internal controls over cash and investment reconciliations and assess control risk in order to help plan the nature, timing and extent of substantive testing.

Conclusion:

We have gained an understanding of internal controls and assessed control risk at maximum. Therefore, we will not place reliance on controls. Our understanding of internal controls and control risk assessment will be used to help plan the nature, timing and extent of substantive testing. We noted the following weaknesses:

- The year end bank reconciliation was not completed until 2/10/22. There was also not a formal documented petty cash reconciliation for FY21 See issue: [ISS.4].

Testing Strategy:

The following procedures are **required** for gaining an understanding of controls over cash and investment reconciliations:

1. Gain an understanding of the internal control process, identify key controls over relevant assertion(s), and note any control weaknesses.

Expected key control for existence and completeness: Bank reconciliations are performed timely on at least a monthly basis to ensure the general ledger agrees to bank and investment account records.

Documentation should include who performs bank reconciliations, how often they are performed and how reconciliations are aggregated and compared to the general ledger.

Note: we would expect additional key controls if the government has any alternative investments or investments subject to significant interest rate or other risks.

Expected compensating controls:

- An accounting system module or a standard template is used to document reconciliations.
- Segregation of duties in that the person performing bank reconciliations does not have cash handling duties or access to initiate disbursements by wire or check.
- Timely, independent review of bank reconciliation documentation, including journal entries for adjustments identified from the bank statements (such as fees, NSF checks, etc).
- An up-to-date listing of change fund, petty cash and imprest fund accounts is maintained in accordance with BARS 3.8.8.
- Zero-balance bank accounts and clearing funds (see BARS 3.8.6) are reconciled to zero on a monthly basis.

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- If the government has an investment account (that is, other than the State or County LGIP), documented inquiry with their investment service to verify the methodology for determining fair value of investments and the valuation input hierarchy level for purposes of their fair value (GASB 72) disclosures.

Some investment accounts provide information about its methodology, assumptions, and data in valuing investments at the asset class level. However, brokers often provide no, or only limited, information about the inputs and assumptions used in developing the fair value. Management should either obtain a document with this information or contact the broker/institution to gain an understanding of the information about methods and inputs used in determining the fair value and where the investment should be disclosed in the hierarchy.

Contact the Investment Specialist for any questions on expected controls or documentation over fair value disclosures.

2. Confirm your understanding to determine whether key controls have been placed in operation (*whether the entity has actually implemented key controls*).

Suggested confirmation for expected key controls are to obtain and scan all year-end bank reconciliations and supporting documentation. This is normally done in conjunction with substantive testing. We would expect that bank reconciliations would clearly show check figures that compare the aggregated adjusted bank balance to the general ledger.

3. Auditors would not normally test controls over bank reconciliation process re-performing and substantially testing the year end bank reconciliation provide substantial evidence in testing for existence.

Evaluate the results and document a final control risk assessment. Consider whether any internal control issues identified represent material weaknesses or significant deficiencies.

A material weakness exists when the design or operation of controls results in a "reasonable possibility" that controls will not prevent or detect material misstatements. A significant deficiency is a control deficiency that is less severe than a material weakness, yet important enough to merit the attention of the governing body. See the Policy/Standards tab for more guidance on evaluating whether an identified issue represents a material weakness or significant deficiency.

All potential material weaknesses and significant deficiencies should be discussed with the AIC or AAM, since they must be reported as findings.

Guidance/Criteria.*

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ADDITIONAL BACKGROUND

Auditors should consider the following background information and resources when performing work on this area.

SAO Audit Policy [2310](#) - Reporting Identified Audit Issues

SAO Audit Policy [6230](#) – Understanding Internal Control and Assessing Control Risk

[Financial Statement Audits](#) Planning Guide

Record of Work Done:

Material Balance(s) and Assertion(s): [C.1.11]

- Cash and Cash Equivalents - Existence

Risk identified in planning:

- Cash is a required balance per SAO Policy 6310 (Existence). There is a risk that cash and cash equivalents did not exist at year-end.

1. Gain an Understanding of Internal Controls

We gained an understanding of the college's process for reconciling cash and cash equivalents and investments at fiscal year-end as follows:

*Note: The College did not hold any investments as of 6/30/21.

We inquired with Alyshia Joselyn, Director of Financial Services, on 2/18/22, to gain an understanding of the College's process for reconciling cash and cash equivalents at fiscal year end.

Due to staffing turnover, no bank reconciliation was performed before the financial statements were completed in January of 2022. See issue: [ISS.4]. We received the bank reconciliation for 6/30/21 which was completed on 2/10/22 by a hired contractor, and reviewed by Alyshia Joselyn, Director of Financial Services, on 2/12/22.

The current procedures are that the US Bank Statements are received via mail. Digital bank statements are also available, although deposit information and outstanding check summaries are not available electronically. At month end, a contractor prepares reconciliations and Alyshia Joselyn, Director of Financial Services, reviews and signs off on them making sure they reconcile to the College's GL. **(Key Control 1 - Existence).**

A Petty cash reconciliation was not performed in FY21 as the campus was closed. They did a petty cash count in June 2021 and it reconciled to

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the GL as there was no activity throughout the year due to COVID-19. It was a 10-key tape to verify the cash was there. Since there was not activity they did not generate any paperwork at fiscal year-end. Currently they are now performing a petty cash reconciliation quarterly and are going to move to monthly reconciliations. These reconciliations are performed by Shobha Malawarair, Fiscal Analyst 4, and reviewed by Alyshia Joselyn, Director of Financial Services. **(Key Control 2 - Existence).**

Summary of Key Controls:

- **Key Control 1 (Existence)**- When the reconciliation is complete, their contractor signs and dates the "prepared by" line. Once prepared, Alyshia Joselyn will review the reconciliation to ensure bank data reconciles to the College's GL, and signs and dates to indicate review.
- **Key Control 2 (Existence)**- Shobha Malawarair prepares the reconciliation for petty cash and Alyshia Joselyn reviews and signs the reconciliation.

Identified Weaknesses:

- No bank reconciliation was performed for their US Bank account at Fiscal year-end: [\[ISS.4\]](#)
- Petty Cash had no formal reconciliation during FY21: [\[ISS.4\]](#)

2. Confirm Understanding

Key Control 1 (Existence)- When the reconciliation is complete, their contractor signs and dates the "prepared by" line. Once prepared, Alyshia Joselyn will review the reconciliation to ensure bank data reconciles to the College's GL, and signs and dates to indicate review.

We obtained the June 30, 2021, bank reconciliation packet from Alyshia Joselyn, on 2/18/22. We noted that the reconciliation was prepared and signed by their contractor on 2/10/22. Additionally, we noted Alyshia Joselyn reviewed and signed the reconciliation on 2/12/22. The bank reconciliation was not performed until 7 months after year end. See audit issue [ISS.4](#).

Key Control 2 (Existence)-Shobha Malawarair prepares the reconciliation for petty cash and Alyshia Joselyn reviews and signs the reconciliation.

No formal petty cash reconciliation was performed for FY21, therefore we cannot confirm the key control. See audit issue [ISS.4](#).

3. Final Control Risk Assessment

Control testing is not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

Final control risk is assessed at **MAX** - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that

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substantive procedures alone will be effective to reduce detection risk to an acceptable level.

Issues

ISS.3 - E: Repeat - Outstanding Checks		
<i>Prepared By:</i>	KJM, 3/24/2022	Issue We identified 26 checks totaling \$7,337.01 on the US Bank Unpaid Only Report that were outstanding for a period greater than 180 days. Per <u>SAAM 85.38.40 A(2)</u> , Agencies are advised to monitor the Aged Outstanding Reports in OST's Treasury Management System on a regular basis. State law requires outstanding warrants to be canceled after 180 days; the Uniform Unclaimed Property Act (<u>RCW 63.29</u>), applies to the outstanding liability for canceled warrants/checks. We recommend the College monitor outstanding checks reports to ensure they are not outstanding for a period greater than 180 days.
<i>Reviewed By:</i>	SHW, 4/20/2022	
<i>Type:</i>	Financial Statements	
<i>Category:</i>	Accounting/Financial Reporting	
<i>Reporting Level(s):</i>	Exit Item	
<i>Impact</i>		
<i>Cost Savings:</i>		
<i>Questioned Costs:</i>		
NOTES		
See LOR: <u>[AS2.a]</u>		
We communicated this issue to Cliff Frederickson, Budget Director		
ISS.4 - E: Cash Reconciliation		
<i>Prepared By:</i>	KJM, 3/24/2022	Issue Shoreline Community College did not complete thier US Bank Cash Reconciliation
<i>Reviewed By:</i>	SHW, 6/13/2022	

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<i>Type:</i>	Financial Statements	for June 30, 2021 until February 2022 due to turnover and staffing shortages. There was also no formal petty cash reconciliation performed for FY21. As a result there was a misstatement of \$61,804.58 that should have been included in the general ledger at year end causing the cash balance to be understated. We recommend the college complete cash reconciliations promptly on a monthly basis.
<i>Category:</i>	Accounting/Financial Reporting	
<i>Reporting Level(s):</i>	Exit Item	
<i>Impact</i>		
<i>Cost Savings:</i>		
<i>Questioned Costs:</i>		
NOTES		
See LOR: [AS2.a]		
We communicated this issue to Cliff Frederickson, Budget Director. Cliff agreed with the issue.		