

ACUIA 23rd Annual Conference

Top Ten Audit Findings

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Class Objectives

- ▶ Identify key audit areas subject to auditor scrutiny.
- ▶ Identify ways to avoid audit findings and potential control issues.
- ▶ Ask questions you have interest in and leave this conference more informed.



#10 Prepaid & Other Assets

Prepaid Assets:

Issues:

- Incorrect prepaid terms set-up in the system.
- Inappropriate capitalization of expenses.

How to avoid:

- Review invoice and perform recalculation for accuracy.
- Establish a policy for capitalization thresholds.



10 Prepaid & Other Assets

Other Assets: (Repossessed Collateral “Repos”)

Issues:

- Measuring impairment on vehicles and classification.

How to avoid:

- Incorporate into the monthly financial closing process procedures to measure and reclassify repos at the lower of cost or market.



10 Prepaid & Other Assets

Other Assets: Other Real Estate Owned (OREO)

Issue:

- Initial recording of OREO and subsequent valuations.
- Costs incurred subsequent to being reclassified to OREO.



How to avoid:

- Obtain appraisal to properly record at fair value less costs to sell and periodically obtain an updated appraisal.
- Costs should be charged to expense unless the costs adds value to the property.

9 Payables & Other Liabilities

Issues:

- Unrecorded payables/accruals as of reporting period.
- Insufficient support of the logic behind the estimate or balance.

How to avoid:

- Make inquiry of personnel involved in procurement.
- Require documentation for all estimates or balances.



8 - 457 & 401(k) Plans

457 Plans:

Issues:

- Incorrect reporting of 457(b) plan balances.
- Incorrect reporting of 457(f) accruals.



How to avoid:

- Report 457(b) plan balance consistent with statement.
- Obtain an understanding of 457(f) plan agreement.

8 - 457 & 401(k) Plans

401(k) Plan:

Issues:

- Not using the correct definition of compensation.
- Plan document does not reflect management's intent.

How to avoid:

- Obtain a good understanding of plan document.



7 Controls (Loans)

Issues:

- No formal review over loan file maintenance and loan exception reports:
 - loan rate changes
 - due date advances
 - unusual rates (outside normal ranges)
 - paid ahead loans

How to avoid:

- Perform a review these reports to determine the validity of items appearing on reports



6 Controls (Plastics & Dormant Accounts)

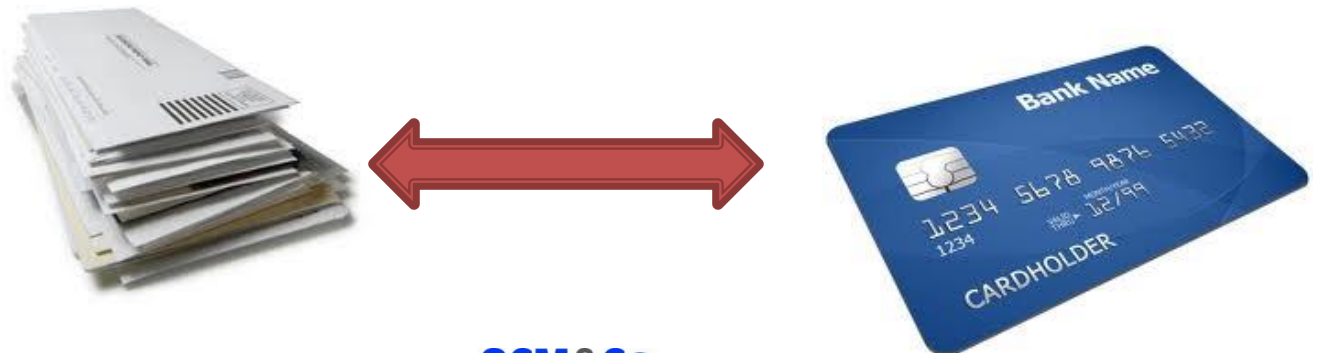
Plastic Cards

Issues:

- Both plastic cards and PIN are returned to employee creating cards.

How to avoid:

- Segregate returned mail process from employee creating cards.



6 Controls – (Plastics & Dormant Accounts)

Controls - Dormant Accounts:

Issues:

- Unauthorized (fraudulent) transactions posted against dormant accounts.

How to avoid:

- Set system parameters to require a “supervisory override” in order to perform transactions against dormant accounts.
- Perform timely review of dormant account transaction report.



5 Controls – Employee Accounts & System Access

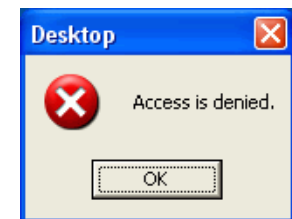
Controls - Employee Accounts:

Issues:

- Potential misappropriation of funds by not restricting employees from recording transactions to their own account.
- Untimely review of new employee's transaction authority.

How to avoid:

- Restrict employees from performing transactions on their own accounts.
- Review employee activity report.



5 Controls – Employee Accounts & System Access

Controls - System Access:

Issue:

- Computer system access beyond related job function which may allow for potential unauthorized transactions.

How to avoid:

- Restrict computer system access to match job function.
- Review of computer system access reports.



4 Cash on Hand (Tellers & Operations)

Issues:

- Not performing “surprise” cash counts.
- Dual control over vault & single custody of teller drawer.
- Not establishing teller drawer limits.



How to avoid:

- Perform “surprise” cash counts.
- Vault should be maintained under dual custody & tellers should maintain sole custody of their respective drawer.
- Establish drawer limits (i.e., < \$5,000).

3 Reconciliations

Issues:

- Not prepared or reviewed for “all” general ledger (GL) accounts.
- Not supported with proper documentation.

How to avoid:

- Reconciliation should be maintained for “all” GL accounts and reviewed on a timely basis.
- Establish a monthly reconciliation log to assist with monitoring and tracking reconciliations.



2 Accrued Interest on Loans Report

Issues:

- Not reviewing this report has contributed to the following findings:
 - fraudulent loans
 - loan input errors
 - unauthorized advancement of payment due dates
 - misapplication of principal and interest payments
 - over accrual of interest

How to avoid:

- Generate and review the following loan exception reports:
 - accrued interest > \$500
 - accrued interest > scheduled payment
 - accrued interest > loan balance



1 Allowance for Loan and Lease Losses “ALLL”

Issues:

- Analysis based on unreasonable historical loss period.
- Analysis not considering required “Q&E” components.
- ALLL specific reserve not compliant with GAAP.
- ALLL not including TDRs.

How to avoid:

- ALLL analysis should include a reasonable historical loss period, a “Q&E” component and specific reserves and or TDR reserves (if applicable).



Speaker Information

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