

MENTAL HEALTH REGION 2018 Audit Programs

June 30, 2018

**AUDIT STRATEGY
RISK ASSESSMENT**

QUESTION	YES	NO	N/A	REMARKS
III. FRAUD RISK ASSESSMENT Instructions: Complete the following questions to document your consideration of risk factors that might indicate an increased risk of material misstatement due to fraud. "Yes" answers do not necessarily indicate an increased risk, but should be considered when assessing the risk of <u>material</u> misstatement due to fraud. If fraud risk factors are present, but other controls exist that compensate for that risk, document the mitigating factors in the remarks column. <u>RISK FACTORS RELATING TO FRAUDULENT FINANCIAL REPORTING</u> A. Incentives/Pressures <ol style="list-style-type: none"> 1. Is there significant pressure on meeting performance targets? 2. Is a significant portion of management's compensation or performance assessment dependent on budgetary goals, program results or other incentives? 3. Do unrealistic performance targets exist? 4. Were there numerous significant budget modifications in prior periods? 5. Is there a lack of formal budgeting policies and procedures? 6. Is the current management unable to make reasonable estimates of tax revenues, expenditures or cash requirements? 7. Has the credit rating for the Region's securities been downgraded by an independent agency since the prior period? 8. Do individuals outside of management or the governing body have substantial influence over the operations of one or more governmental units? 9. Has management set unduly aggressive financial targets and expectations for operating personnel? 10. Is the Region subject to new accounting, statutory or regulatory requirements that could impair its operating efficiency or financial stability? 11. Is the Region experiencing rapid changes, such as rapid changes in technology or rapid changes in citizen's service expectations? 				

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12.	Is the Region experiencing a poor or deteriorating financial condition (for example, a declining tax base, declining economy or other anticipated loss of revenue sources)?				
13.	Is the Region having difficulty generating cash flows from operating activities?				
14.	Has the Region experienced unusually rapid growth or improved financial results, especially when compared to other governments?				
15.	Is the Region highly vulnerable to changes in interest rates?				
16.	Is the Region unusually dependent on debt financing?				
17.	Do the Region's financing agreements have debt covenants that are difficult to maintain?				
18.	Is the Region facing the threat of imminent bankruptcy?				
19.	Is there significant pressure to obtain additional funding to maintain services?				
20.	Is there a high degree of competition for federal or state awards?				
21.	Is there declining federal and state program funding levels on a national or regional level?				
22.	Is there a declining number of eligible participants, benefit amounts, and/or enrollments in award programs?				
23.	Is there complex or frequently changing compliance requirements?				
24.	Is there a mix of fixed price and cost reimbursable program types that create incentives to shift costs?				
B. Opportunities					
1.	Is management dominated by a single individual or a small group without compensating controls, such as effective oversight by the governing body?				
2.	Does the governing body or management lack understanding or experience regarding the operation or responsibilities of the Region?				
3.	Are internal controls inadequately monitored by management?				

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<p>4. Has management continued to employ ineffective accounting or IT (information technology) personnel?</p> <p>5. Has there been a high turnover in management level employees, bankers, attorneys or auditors?</p> <p>6. Does the level of communication between accounting managers and data processing or IT departments appear to be inadequate?</p> <p>7. Are assets, liabilities, revenues, and expenditures or expenses based on significant estimates that involve unusually subjective judgments or uncertainties or that could significantly change in the near term in a manner that may be financially disruptive?</p> <p>8. Does the Region engage in significant related party transactions not in the ordinary course of business (including transactions with related governments that are unaudited or audited by another firm)?</p> <p>9. Does the Region have unusual or highly complex transactions (particularly those close to year-end) that are difficult to assess for substance over form?</p> <p>10. Does the Region have significant bank accounts in locations for which there does not appear to be a clear business justification?</p> <p>11. Does the Region have an overly complex organizational structure involving numerous component units, subrecipients, related organizations, lines of managerial authority or contractual arrangements that do not have an apparent purpose?</p> <p>12. Does the Region have significant relationships with other governments that do not appear to have a clear programmatic or business justification?</p>				
C. Attitudes/Rationalizations				
<p>1. Were there numerous significant audit adjustments in prior periods?</p> <p>2. Is there an excessive interest by management to meet performance targets through the use of unusually aggressive accounting practices?</p> <p>3. Has management failed to effectively communicate and support the Region's values or ethics?</p> <p>4. Has management failed to effectively communicate about inappropriate business practices or ethics?</p>				

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<p>5. Has management failed to correct known significant deficiencies or material weaknesses in internal control on a timely basis?</p> <p>6. Has management displayed a significant disregard for regulatory requirements, including, when applicable, federal and state award compliance requirements?</p> <p>7. Does management have a poor reputation?</p> <p>8. Does management have a history of violating laws, regulations, debt covenants, contractual obligations, or federal and state award compliance requirements?</p> <p>9. Do non-financial management or personnel excessively participate in the determination of significant estimates or selection of accounting principles?</p> <p>10. Are there frequent disputes on accounting, auditing or reporting matters between management and the current or predecessor auditor?</p> <p>11. Has management made unreasonable demands on the auditor, such as unreasonable time constraints on completion of the audit or an excessive emphasis on reducing the audit fee?</p> <p>12. Has management placed restrictions on the auditor (formal or informal) that inappropriately limit access to people or information (or inappropriately limit communication with the governing body or audit committee)?</p> <p>13. Has management failed to respond to specific inquiries or to volunteer information regarding significant or unusual transactions?</p> <p>14. Has there been domineering behavior by management, especially involving attempts to influence the scope of the auditor's work?</p> <p>15. Are there other situations indicating a strained relationship between management and the current or predecessor auditor?</p> <p>16. Could the Region face adverse consequences on a significant pending transaction (such as issuance of debt or receipt of a grant) if poor financial results are reported?</p> <p>17. Does the Region have significant investments in high-risk financial investments?</p>				

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18. Are there any known personal difficulties or other influences in the lives of management that could adversely affect their integrity, attitude or performance?				
19. Do other conditions indicate incentives/pressures, opportunities or attitudes/rationalizations for management to engage in fraudulent financial reporting?				

Do conditions exist that indicate there may be incentives/pressures, opportunities or attitudes/rationalizations relating to misappropriation of assets?

_____ Yes (Document in Part IV)

_____ No

Comments:

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<u>RISK FACTORS RELATING TO MISAPPROPRIATION OF ASSETS</u>				
A. Incentives/Pressures				
1. Are there any indications management or employees with access to cash or other assets susceptible to theft have personal financial obligations that may create pressure to misappropriate assets?				
2. Are there any conditions that may create adverse relationships between the Region and employees with access to cash or other assets susceptible to theft, such as the following:				
a. Known or anticipated future employee layoffs?				
b. Recent or anticipated changes to employee compensation or benefit plans?				
c. Promotions, compensation or other rewards inconsistent with expectations?				
B. Opportunities				
1. Does the Region maintain or process large amounts of cash?				
2. Is the Region's inventory easily susceptible to misappropriation (such as small size, high value or high demand)?				
3. Does the Region have assets that are easily convertible to cash (such as bearer bonds, etc.)?				
4. Does the Region have capital assets that are easily susceptible to misappropriation (such as small size, portability, marketability, lack of ownership identification, etc.)?				
5. Is the Region susceptible to fraudulent, unauthorized disbursements (such as vendor or payroll disbursements) being made in amounts that are material to the financial statements?				
6. Is there a lack of management oversight over assets susceptible to misappropriation?				
7. Does the Region lack job applicant screening procedures when hiring employees with access to assets susceptible to misappropriation?				
8. Does the Region have inadequate record keeping over assets susceptible to misappropriation?				
9. Is there a lack of appropriate segregation of duties that is not mitigated by other factors (such as management oversight)?				

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<p>10. Does the Region lack an appropriate system for authorizing and approving transactions (for example, in purchasing or payroll disbursements)?</p> <p>11. Are there poor physical safeguards over assets susceptible to misappropriation (for example, inventory not stored in a secured area, cash or investments kept in unlocked drawers, etc.)?</p> <p>12. Is there a lack of timely and appropriate documentation for transactions affecting assets susceptible to misappropriation?</p> <p>13. Is there a lack of mandatory vacations for employees in key control functions?</p> <p>14. Does management have an inadequate understanding of information technology which enables information technology employees to perpetrate a misappropriation?</p> <p>15. Are access controls over automated records inadequate (including controls over, and review of, computer system event logs)?</p>				
C. Attitudes/Rationalizations				
<p>1. Do employees who have access to assets susceptible to misappropriation show:</p> <p>a. Disregard for the need for monitoring or reducing risks related to misappropriation of assets?</p> <p>b. Disregard for internal control over misappropriation of assets by overriding existing controls?</p> <p>c. Disregard for internal control over misappropriation of assets by failing to correct known internal control deficiencies?</p> <p>2. Do employees who have access to assets susceptible to misappropriation exhibit behavior indicating displeasure or dissatisfaction with the Region or its treatment of its employees?</p> <p>3. Have you observed any unusual or unexplained changes in behavior or lifestyle of employees who have access to assets susceptible to misappropriation?</p>				

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Do conditions exist that indicate there may be incentives/pressures, opportunities or attitudes/rationalizations relating to misappropriation of assets?

_____ Yes (Document in Part IV)

_____ No

Comments:

List any additional fraud factors or conditions identified as being present. Additional factors may have been identified through inquiry of management in the entrance conference. Also, document any compensating controls.

If improper revenue recognition was not identified as a risk of material misstatement due to fraud, describe the reasons regarding how that presumption was overcome.