

**AGENCY:** 2023 Audit Programs

June 30, 2023

**TESTS OF CONTROLS**  
**AND SUBSTANTIVE TESTS**  
**OF TRANSACTIONS**

PROCEDURE	DONE BY	W/P REF	N/A	REMARKS
<p><b>Audit Objectives:</b></p> <p><b>A. To test the Agency's compliance with its stated internal control policies and procedures.</b></p> <p><b>B. To test compliance with Agency and State of Iowa rules and regulations as to proper transactions, documentation, etc.</b></p> <p><b>Audit Procedures:</b></p> <p>A. The following classes of transactions and balances are to be tested:</p> <ol style="list-style-type: none"> <li>1. Payroll.</li> <li>2. Other expenditures.</li> <li>3. Revenue (For Institutions Only: Exclude transaction numbers beginning with 413 (County Billings). These will be tested at DHS).</li> <li>4. Cash and/or Investments: <ol style="list-style-type: none"> <li>a. Consider confirming bank account and/or investment balances with financial institutions (i.e., contingent funds at institutions, resident accounts, etc.) If not confirmed, document why. <ol style="list-style-type: none"> <li>1) If the bank returns imaged canceled checks, ensure both the front and back are imaged per Chapter 554D.114(5) of the Code of Iowa.</li> <li>2) Determine the Agency has ensured all public funds deposits with banks have met the requirements of Chapter 12C.22 of the Code of Iowa (Pledging of Public Funds Program).</li> <li>3) If checks are outstanding greater than three years, ensure their disposition complies with Chapter 556 of the Code of Iowa.</li> </ol> </li> <li>b. Determine the allowability of any sweep accounts.</li> <li>c. Determine investments are reported at fair value and the change in fair value is recorded as net increase (decrease) in the fair value of investments (can be reclassified as interest revenue for ACFR purposes) in accordance with GASB 31 and GASB 72.</li> </ol> </li> </ol>				

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<ol style="list-style-type: none"> <li>1) When an active market does not exist for investments, determine the method of estimating fair value and evaluate the propriety of fair value measurements in accordance with AU-C 540 (Characteristics of an inactive market include few transactions, prices are not current, price quotations vary substantially or little information is released publicly).</li> <li>2) Determine the proper application of the fair value hierarchy input level for each investment in accordance with GASB 72 as follows.               <ol style="list-style-type: none"> <li>a) Level 1 inputs – quoted prices in active markets for identical assets.</li> <li>b) Level 2 inputs – significant other observable inputs such as quoted prices for similar assets in active markets, quoted prices for identical assets in markets that are not active or other than quoted prices that are observable such as prices using a matrix pricing model.</li> <li>c) Level 3 inputs – significant unobservable inputs using the best information available.</li> </ol> </li> <li>3) If the Agency uses pricing services or brokers to obtain fair value measurements, determine the Agency has determined those prices have been developed in accordance with GASB 72.</li> <li>d. Document investment information for footnote disclosure in accordance with GASB 40, as follows:               <ol style="list-style-type: none"> <li>1) Investments on hand at June 30 should be listed by type and include maturities.                   <ol style="list-style-type: none"> <li>a) Credit risk.</li> <li>b) Custodial credit risk.</li> <li>c) Concentration of credit risk.</li> <li>d) Interest rate risk.</li> <li>e) Foreign currency risk.</li> </ol> </li> </ol> </li> <li>e. Determine land or other real estate held as investments by endowments are reported at fair value in accordance with GASB 52 and include the disclosure provisions of GASB 31, as amended by GASB 81.</li> <li>5. Other significant balances or transaction classes.</li> </ol>				

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<p>6. Analyze the Agency's use of procurement cards, if significant:</p> <p><b>Note:</b> Applicable procedures should also be applied to credit cards.</p> <p><b>Note:</b> Separate procurement cards are issued for purchasing of goods and services (Pcard) and travel-related expenses (Travel card). However, the same procedures should be applied to both types of cards.</p> <p>Iowa Purchasing Card Program Policy and Procedures Manual is available at <a href="https://das.iowa.gov/procurement/agencies/state-iowa-purchasing-card-program/policy-and-procedures">https://das.iowa.gov/procurement/agencies/state-iowa-purchasing-card-program/policy-and-procedures</a></p> <p>a. Determine payment was made to US Bank within 30 days of the statement date. (Purchasing Card Policy and Procedures Manual – Payment Terms and Processing)</p> <p>b. Determine the Agency reconciled the US Bank Statement to receipts/invoices timely to ensure payment is processed on a timely basis to avoid late fees. (Purchasing Card Policy and Procedures Manual – Agency Reconciliation and Pre-Audit)</p> <p>c. Select a sample of transactions to be tested (document method used to select sample and source from which items were selected). Examine these items for the following attributes:</p> <ol style="list-style-type: none"> <li>1) Expenditure is properly authorized.</li> <li>2) Expenditure is properly classified by object code, organization and receipt.</li> <li>3) Amount paid from invoice agrees with the vendor's original receipt.</li> <li>4) Original receipt includes vendor name, amount, date and itemized description of item(s) purchased and/or service(s) provided. (Purchasing Card Policy and Procedures Manual – Receipts, Documentation and Retention)</li> <li>5) Receipts and invoice are mathematically accurate.</li> </ol>				

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<p>6) Single transaction did not exceed the limit established for the card. If the single transaction limit was exceeded, prior approval was received from the Agency Administrator. (Purchasing Card Policy and Procedures Manual – Card Controls)</p> <p>7) The expenditure is not prohibited.</p> <p>a) For Pcards, items prohibited include: cash advances, controlled substances, fuel for personal or state vehicles, interdepartmental expenses, memberships, personal expenses (including meals), real estate leases, travel expenditures, state automobile repairs and weapons/ammunition. (Purchasing Card Policy and Procedures Manual – Prohibited Uses)</p> <p>b) For Travel cards, items prohibited include: meals, in-state hotels, charges for anyone other than the employee, movies, phone calls, gift shop purchases, bar service, room service, laundry, other hotel services, parking, toll charges, fuel, cab fares, in-state registrations with meals and checked baggage fees. (Purchasing Card Policy and Procedures Manual – Card Types: Travel Cards)</p> <p><b>Note:</b> Travel card expenditures should be in accordance with the State's Accounting Policy and Procedures Manual, Iowa Travel Procedure 210.101.</p> <p>8) Sales tax was not paid on the transaction. (Purchasing Card Policy and Procedures Manual – Tax Exempt Status)</p> <p>9) Purchase meets the test of public purpose.</p> <p>d. Determine if the Agency is following procurement guidelines as outlined in the Iowa Administrative Code Section 11, Chapters 117 through 120. See step 9 below. (Purchasing Card Policy and Procedures Manual – Compliance)</p> <p>7. Construction Contracts:</p> <p>a. Reconcile original contract to final contract.</p>				

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<ul style="list-style-type: none"> <li>b. Reconcile total payments to date by scheduling prior year payments, current year payments and payments due and retainage due.</li> <li>c. Determine projects and contracts were approved.</li> <li>d. Determine construction contracts do not contain clauses which would make the in-state construction contracts subject to the laws of another state or which require litigation, mediation, arbitration or other dispute resolution proceedings be conducted in another state in accordance with Chapter 537A.6 of the Code of Iowa.</li> <li>e. For public improvements with estimated total cost in excess of the competitive bid threshold in Chapter 26.3 of the Code of Iowa or as established in Chapter 314.1B of the Code of Iowa (\$196,000 effective January 1, 2023), determine competitive bid and public hearing procedures specified in Chapter 26 of the Code of Iowa were followed. <ul style="list-style-type: none"> <li>1) Determine the Agency advertised for sealed bids as provided in Chapter 26.3 of the Code of Iowa and posted a notice to bidders not less than 13 days but not more than 45 days before the date for filing bids.</li> <li>2) Determine the Agency published notice of the public hearing including a description of the public improvement and its location, not less than 4 nor more than 20 days before the date of the hearing as provided in Chapters 26.12 and 362.3 of the Code of Iowa.</li> <li>3) Determine the Agency had an engineer licensed under Chapter 542B of the Code of Iowa, a landscape architect licensed under Chapter 544B or an architect registered under Chapter 544A prepare the plans and specifications and calculate the estimated total cost of the proposed public improvement as required by Chapter 26.3 of the Code of Iowa.</li> <li>4) Determine the Agency awarded the contract for the public improvement to the lowest responsive, responsible bidder as required by Chapter 26.9 of the Code of Iowa.</li> </ul> </li> </ul>				

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<p>5) For public improvement projects requiring competitive bids, determine the Agency complied with the requirement to not restrict potential bidders to any predetermined class of bidder, as required by Chapter 26.16 of the Code of Iowa.</p> <p>f. Determine the Agency received competitive quotes for public improvement projects in accordance with Chapter 26.14 of the Code of Iowa for the projects with estimated costs less than required bid thresholds but greater than the threshold amount established by the bid threshold committee per Chapter 314.1B of the Code of Iowa. (effective January 1, 2023: \$81,000 for an area with a population of less than 50,000 and \$109,000 for an area with a population of 50,000 or more)</p> <p>1) For work performed by Agency employees, other than repair or maintenance work, determine the Agency filed a quotation for the work to be performed in the same manner as a contractor as required by Chapter 26.14(3)(a) of the Code of Iowa.</p> <p>2) Determine the Agency awarded the contract for the public improvement to the contractor submitting the lowest responsive, responsible quotation as required by Chapter 26.14(3)(b) of the Code of Iowa.</p> <p>g. Determine any enhancement payments made for early completion of the project did not exceed 10 percent of the value of the contract in accordance with Chapter 26.9 of the Code of Iowa.</p> <p>h. Determine the Agency applied for and received sales tax refunds on completed projects, unless an exemption certificate was issued by the Agency for the contractor per Chapter 423.3(80)(b) of the Code of Iowa.</p> <p>i. For public improvement projects, determine the Agency complied with requirements for the early release of retained funds in accordance with Chapter 26.13 of the Code of Iowa.</p> <p>8. Procurement of Goods and Services</p> <p>a. Document the Agency's procedures for purchasing and determine if they are in accordance with IAC Section 11, Chapters 117-119.</p>				

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<ul style="list-style-type: none"> <li>b. Review and document the Agency's internal controls over contractual compliance.</li> <li>c. Determine if purchase/contract guidelines, as documented in the Iowa Administrative Code, were followed by selecting vendors/contracts or payments for testing. Obtain a vendor listing from the I/3 system on ACL and obtain a contract listing (including goods and services) from the Agency, ensuring the completeness of the listing. Select items from either listing. <ul style="list-style-type: none"> <li>1) Determine if the Agency purchased goods or services using an existing master agreement entered into by DAS Procurement Services (IAC Section 11, Chapter 117.4). <ul style="list-style-type: none"> <li>a) Determine if the Agency complied with the terms and conditions of the agreement.</li> <li>b) Determine if the agreement was reasonable.</li> </ul> </li> <li>2) Determine if the Agency purchased non-master agreement goods up to \$5,000 per transaction in a competitive manner (IAC Section 11, Chapter 117.15). <ul style="list-style-type: none"> <li>a) Determine if three or more informal quotes were received and documented unless quotes are not reasonably available (circumstances resulting in fewer than three quotes should be documented).</li> <li>b) Test for compliance requirements as required by IAC Section 11, Chapter 117.</li> </ul> </li> <li>3) Determine if the Agency contracted for non-master agreement services in accordance with IAC Section 11, Chapter 118. <ul style="list-style-type: none"> <li>a) Determine if formal or informal competition was used if the estimated annual value of the service contract was equal to or greater than \$5,000, or the estimated value of the multiyear service contract in the aggregate, including any renewals, was equal to or greater than \$15,000.</li> </ul> </li> </ul> </li> </ul>				

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<ul style="list-style-type: none"> <li>b) Determine if formal competition was used when the estimated annual value of the service contract was equal to or greater than \$50,000, or the estimated value of the multiyear service contract in the aggregate, including any renewals, was equal to or greater than \$150,000.</li> <li>c) Test for compliance requirements as required by IAC Section 11, Chapters 118 and 119 and the State's Accounting Policy and Procedures Manual, Procedure 240.102.</li> <li>4) Exemptions from competitive procurement should be justified and properly documented according to IAC. Exemptions include the following; emergency procurement (IAC Section 11 Chapter 117.5(1)/IAC Section 11 Chapter 118.8), purchases from a Targeted Small Business (TSB) for up to \$25,000 (IAC Section 11, Chapter 117.5(2)), Iowa Prison Industries (IAC Section 11, Chapter 117.5(3), procurement based on competition managed by other governmental entities (IAC Section 11 Chapter 117.5(4) and sole source procurement (IAC Section 11, Chapter 117.5(5)/IAC Section 11, Chapter 118.7).</li> <li>d. For service contracts in excess of \$500,000 (individually or a series), determine, on a test basis, if the requirements have been followed, including: <ul style="list-style-type: none"> <li>1) As a condition of entering into a service contract, the contractor has certified the required information is available for inspection by the Agency and the Legislative Services Agency as required by Chapter 8F.3(1) of the Code of Iowa.</li> <li>2) Prior to entering into a service contract, the Agency determined whether the contractor can reasonably be expected to comply with the requirements as required by Chapter 8F.3(3) of the Code of Iowa.</li> </ul> </li> </ul>				



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<p>3) As a condition of continuing to receive funds under a service contract, the contractor filed an annual report with the Agency and with the Legislative Services Agency within 10 months following the end of the contractor's fiscal year as required by Chapter 8F.4(1)(a) of the Code of Iowa.</p> <p>B. For the balances or transaction classes identified, perform the following, as appropriate:</p> <ol style="list-style-type: none"> <li>1. For agencies on I/3, obtain stratifications and reconcile accordingly.</li> <li>2. Select and examine individually significant items (ISI's). (It is not necessary to look at all ISI's for repetitive transactions.)</li> <li>3. For the remainder of the population, request or select a sample for a test of controls and substantive testing. A sample of 25 is considered sufficient. However, the auditor may adjust the sample size, as warranted.</li> <li>4. Consider analytical procedures to substantiate balances.</li> <li>5. If increased coverage is warranted, consider applying extended procedures and/or increase transaction testing.</li> </ol> <p>(Note: The volume of some classes of transactions may be relatively small. The scope may be reduced as long as the objectives are achieved.)</p> <p>C. Test receipts and disbursements for items inappropriately coded to the next fiscal year. If material unrecorded receipts or liabilities are identified, discuss with appropriate personnel.</p> <p>D. Determine if deferred outflows of resources, deferred inflows of resources or advances, meeting the definition under GASB 65, have been recorded.</p> <ol style="list-style-type: none"> <li>1. Review the amount(s) recorded for reasonableness.</li> <li>2. Trace the amount(s) to supporting documentation.</li> </ol> <p>E. If the Agency is on I/3, review the listing of accruals using ACL report J035A102. (GAAP classification is based on event type. For correcting document and event type explanations, see Sharepoint\Office, Audit and Exam Resources\Audit and Examination Resources\State Agency Specific\State Policies\Correcting Documents on I3 System.pdf)</p> <ol style="list-style-type: none"> <li>1. Review documents coded as CC's and CD's to determine proper classification. <ol style="list-style-type: none"> <li>a. Net offsetting CC's/CD's which occur within the same fund. No reclassification is necessary.</li> </ol> </li> </ol>				

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<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>b. Review documents which do not offset to determine proper GAAP classification, based on event type. (i.e. Accounts Payable are GA86 or GA87)</li> <li>c. Prepare journal entries to properly classify the documents based on the GAAP classification and comment, if necessary.</li> </ul> </li> <li>2. Review selected classified accrual documents (i.e. AP, AR, TF, FF) for proper accrual classification. If the classification is incorrect, take the error to the misstatement form and comment, if necessary.</li> <li>F. Confirm material receivables, if applicable, and investigate any discrepancies.               <ul style="list-style-type: none"> <li>1. Document reason(s) for not confirming, such as not effective.</li> <li>2. If receivables are not confirmed, perform the following alternative procedures:                   <ul style="list-style-type: none"> <li>a. Perform test to verify receivables represent goods/services received prior to year-end.</li> <li>b. Trace receivables to receipt and deposit.</li> </ul> </li> </ul> </li> <li>G. Examine adjustments made directly to the financial statements. (AU-C 240.32 and AU-C 330.21).               <ul style="list-style-type: none"> <li>1. Identify and test the appropriateness of significant adjustments made in the preparation of financial statements.</li> <li>2. Scan the error correction documents throughout the period under audit and determine if testing is necessary. Document the items selected, if any.</li> </ul> </li> <li>H. If the Agency is not on centralized payroll, determine if any employees receive a flat dollar allowance for travel, clothing or uniform cleaning. If so, determine if this allowance is included on the W-2.</li> <li>I. If the Agency is not on centralized payroll, determine if the Agency provides vehicles or housing for employee use. If so, determine if these qualify as taxable benefits per IRS regulations and, if applicable, were properly reported as taxable income on the W-2's.</li> <li>J. Determine if the risk of material misstatement due to fraud or error has changed based on results of substantive tests performed. If so, perform appropriate procedures.</li> </ul>				

