



**Internal Audit Committee of
Brevard County, Florida**

**Internal Audit of
Financial Close**

**Prepared By:
Internal Auditors of Brevard County
September 24, 2008**

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September 24, 2008

The Audit Committee of
Brevard County, Florida
Viera, Florida 32940-6699

Pursuant to the approved 2007/2008 internal audit plan, we hereby submit our internal audit report covering the Financial Close process. We will be presenting this report to the Audit Committee at the next scheduled meeting on September 24, 2008.

Our report is organized in the following sections:

| | |
|--------------------------------|---|
| Executive Summary | This provides a summary of the issues related to our internal audit of the Financial Close process. |
| Background | This provides an overview of the financial close process for Brevard County. |
| Objectives and Approach | The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach. |
| Issues Matrix | This section gives a description of the issues identified and recommended action, as well as management's response. |
| Process Map | This section provides a process map depicting the flow of the periodic, monthly and annual processes as validated by County Finance. |
| Risk and Control Matrix | The risk and control matrix is a risk assessment tool that presents a clear picture of the processes, risks, controls, and monitoring methods management uses in ensuring a sound control environment over financial close. |

We would like to thank the various departments and all those involved in assisting the Internal Auditors in connection with the review of the Financial Close process.

Respectfully Submitted,

INTERNAL AUDITORS

Executive Summary

Executive Summary

The primary purpose of this audit was to assess the design adequacy of the internal control structure in place over the financial close function. Our approach focused on determining whether proper controls exist and whether existing controls are appropriate for mitigating inherent risks. During the course of our work, we discussed the control design deficiencies with management.

This phase of our audit was limited to a benchmarking and design assessment and did not include tests of operating effectiveness. We will include a second phase follow up audit to perform tests of operating effectiveness of controls in our proposed internal audit plan for FY 2008/2009, in order to give management an opportunity to implement the recommended actions herein.

The table below provides a high-level summary of the issues identified. We have assigned relative risk to each issue as defined below:

Relative Risk – An evaluation of the severity of the concern and the potential impact on the operations. Items rated as “High” are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as “Moderate” may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as “Low” could escalate into operational issues, but can be addressed through the normal course of conducting business.

There are many areas of risk to consider including financial, operational, and/or compliance, to name a few. For public sector organizations, we also take into account public perception risk when determining the relative risk rating.

Our issues and recommendations for improving controls along with management’s responses are included in detail in the Issues Matrix section of this report.

| Issues Summary | Relative Risk |
|--|---------------|
| <p>1. <u>Timing of Year End Close and Reporting</u>: We noted the County’s Comprehensive Annual Financial Report (CAFR) has been dated late March for the last five years. We compared the audit report dates for Brevard County to those of 6 peer counties and noted Brevard consistently (85% of instances) completes their financials later than the benchmark counties. This is not the same date as when presented to the Board of Commissioners, which could vary significantly for each respective county.</p> | |
| <p>2. <u>Interim Close, Analysis and Reconciliation</u>: Although Fund Accountants and other Finance personnel perform accounting and review procedures throughout the year, there is no formal “soft close” process at the end of each accounting period, which should include formal (documented) analysis of key accounts, subsidiary reconciliations and review of key financial indicators. Although we understand the nature of specific accounts does not make it practical to reconcile more frequently than on an annual basis, we noted most account reconciliations performed by Finance are not documented on a standard periodic basis.</p> | |
| <p>3. <u>Complex and Non-Routine Transactions</u>: We noted there is no separate identification of transactions that are complex, require estimates or are not routine to the closing process. Additionally, the review procedures for these transactions are the same as other routine journal entries; although we believe additional informal review takes place.</p> | |

Executive Summary -continued

| Issues Summary | Relative Risk |
|---|---------------|
| 4. <u>Financial Reporting and Disclosure Committee</u> : The County does not have a financial reporting and disclosure committee or other similar function for independently analyzing transactions, significant events and reviewing prepared disclosures; as well as monitoring events that may require disclosure in the County's financial reports. | High |
| 5. <u>Documented Procedures</u> : County Finance does not have a documented Accounting Policies and Procedures manual. We did note, however, that a general process is followed and some of the staff maintains their own written desk procedures. | High |
| 6. <u>Chart of Accounts Maintenance</u> : Although we noted that access to request, approve, create and delete accounts in the general ledger is limited, there is not a formal process to request and approve such requests. | High |

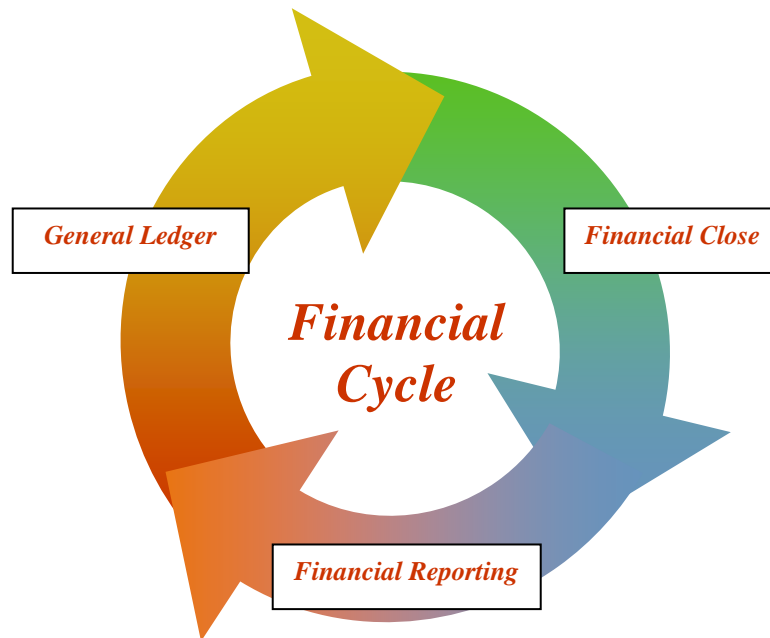
Background

Background

What is Financial Close?

Financial close ('closing of the books') refers to the accounting activities surrounding the closing of the general ledger and all associated sub-ledgers for each accounting period (e.g. month, year). Tasks included in financial close include reconciliation of subsidiary ledgers, cut-off procedures for ensuring all transactions are recorded in the proper accounting period, compliance checklists, recording of complex and non-routine journal such as accounting estimates, or annual accruals for timing differences.

Financial statements such as the statement of net assets and statement of activities for governments are derived from the general ledger as part of this process. Government financial statements provide a contrast to the budget and present the revenue collected and amounts spent. Financial statements are a part of the Financial Reporting process as further described below.



Per discussion with management, below is a depiction of the current timeline of events for Financial Close at Brevard County.

| Task | Month | | | | | |
|--|--------|-------------|-------------------|-------------------|-------------------|-------------------|
| | Oct | Nov | Dec | Jan | Feb | Mar |
| Department vendor invoice cutoff for prior year | Timely | | | | | |
| Finance manual vendor invoice processing for prior year | | Timely | Minor delay | Significant delay | Significant delay | |
| Receipt of financial information from County departments | | Timely | Minor delay | Significant delay | Significant delay | |
| Fund Reconciliations (except General Fund) | Timely | Timely | Significant delay | | | |
| Charter office financial statement submittals due | Timely | | | | | |
| Charter Office revisions | | Minor delay | Significant delay | Significant delay | Significant delay | Significant delay |
| General Fund Reconciliation | | | | | | Significant delay |
| Consolidation of individual funds and component units | | | | Significant delay | Significant delay | Significant delay |
| CAFR preparation and proofing | | | | | | Significant delay |
| External audit fieldwork | Timely | Timely | Timely | Minor delay | Significant delay | Significant delay |

| Legend: | |
|-------------|-------------------|
| Timely | Significant delay |
| Minor delay | |

Background - continued

Financial Statement and Reporting

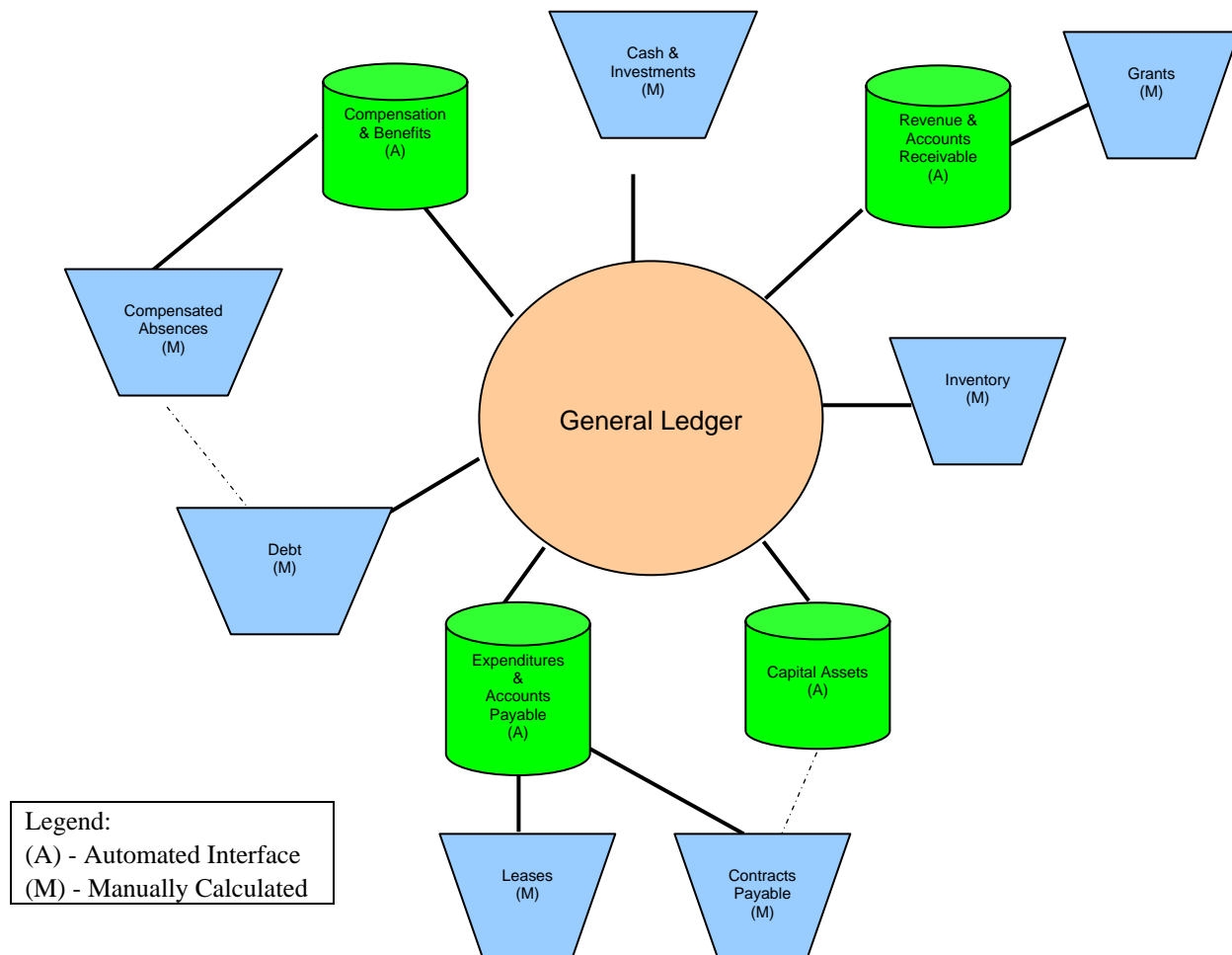
Overview

Financial reporting in government can be viewed as a summary of the government's performance in using public money. Thus, accountability is often considered one of the cornerstones of good government. Officials are given authority and responsibility and it is the task of the officials to clearly convey actions taken and whether these actions fall within the prescriptions of law and community wishes. Government financial reporting answers the following questions: How does money raised cover spending and obligations? What is the current and future financial health of the jurisdiction covered? How do these decisions comply with the expectations of rule-or standard-making bodies?

Financial statements or reports provide a quantitative look at the operating success, financial health, and compliance of the government reporting units. The reports show actual results of operations - what is past tense - rather than presenting anticipated results. Effective policies and procedures and controls in place to ensure a sound financial reporting process. This will help to ensure that decisions made on the financial results will be forward-looking and based on reasonable assumptions and complete, accurate data.

General Ledger

The general ledger is the official accounting record of the County that includes accounts for such items as current assets, fixed assets, liabilities, revenue and expense items, gains and losses. The general ledger is a collection of this group of accounts that supports the items shown in the financial statements. It is created by posting transactions to the respective accounts, also known as journal or batch entries. The general ledger can be supported by one or more subsidiary ledgers that provide details for accounts in the general ledger.



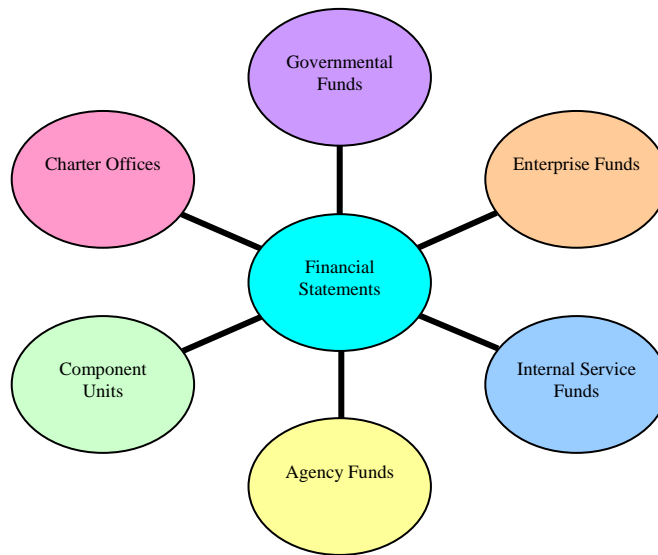
Background - continued

Financial Statement and Reporting - continued

Comprehensive Annual Financial Report

County Finance prepares a Comprehensive Annual Financial Report (“CAFR”) annually. The CAFR is audited annually by an independent Certified Public Accounting firm and has received a “clean” unqualified opinion for more than thirty years. A clean opinion means the CAFR has been prepared in conformity with generally accepted government accounting standards and the results of operations have been fairly presented in all material respects. The County has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States for the past 25 years.

To illustrate the complexity of this process, the chart below depicts the various funds that are consolidated into the County’s government-wide financial statements, as of September 30, 2007:

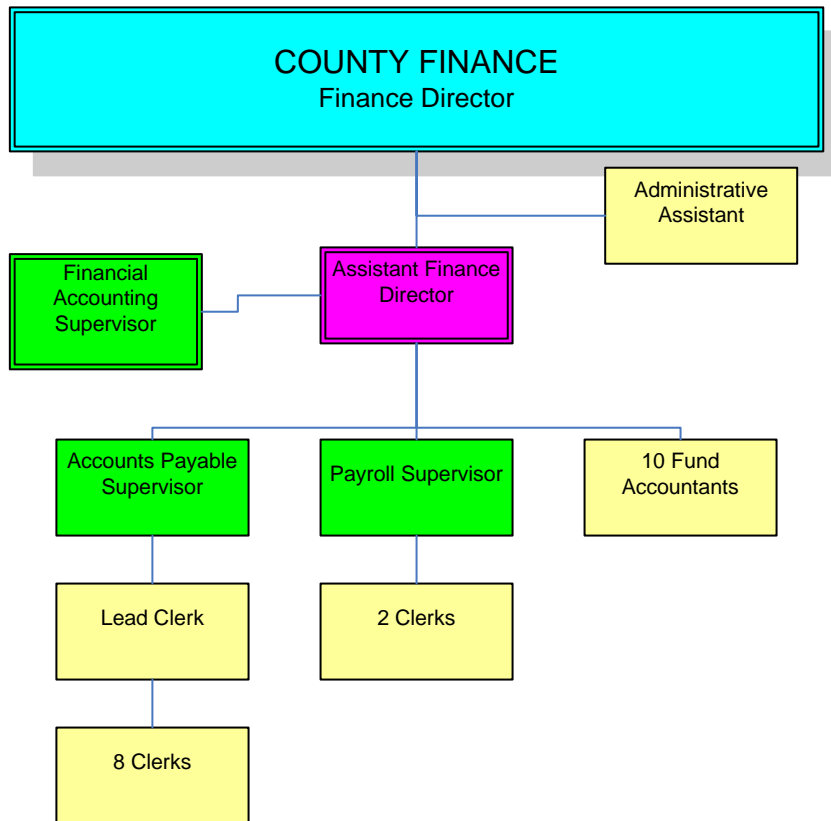


| | | |
|--|--|---|
| <p>Governmental Funds Major Governmental Funds: General Fund Emergency Services Special Revenue Fund Transportation Trust Special Revenue Fund Parks and Recreation Capital Projects Fund EELs Purchases Capital Projects Fund Nonmajor Governmental Funds: (16) Special Revenue Funds -- Special Taxing Districts -- Grants -- Blended Component Units (6) Debt Service Funds (3) Capital Projects Funds</p> | <p>Enterprise Funds Major Enterprise Funds: Solid Waste Management Dept Water Resources Barefoot Bay Water & Sewer District Nonmajor Enterprise Funds: Solid Waste Collection Services Space Coast Area Transit Brevard County Golf Courses</p> | <p>Internal Service Funds Information Systems Risk Management</p> |
| | <p>Charter Offices Board of County Commissioners Sheriff Clerk of the Circuit Court Property Appraiser Tax Collector Supervisor of Elections</p> | <p>Agency Funds Board Sheriff Clerk Tax Collector</p> <p>Component Units (3) Blended (7) Discretely Presented</p> |

Background - continued

Organizational Chart

The chart below illustrates the current structure of the Brevard County Finance department. This department reports to the Clerk of the Circuit Court, an elected official representing a separate constitutional office of Brevard County.



Objectives and Approach

Objectives and Approach

Objectives

The primary purpose of this audit was to assess the design adequacy of the internal control structure in place over the financial close function. Our approach focused on determining whether proper controls exist and whether existing controls are appropriate for mitigating inherent risks. During the course of our work, we discussed the control design deficiencies with management.

Our audit was limited to a design assessment and thus did not include tests of operating effectiveness. We recommend a follow up audit to include tests of operating effectiveness of controls once management has implemented the recommended actions herein.

Objectives of the current internal audit of Financial Close include the following:

- Determine if County Finance procedures and respective forms used related to its financial operations are adequate.
- Determine whether records and documentation around the financial reporting process is sufficient to establish an audit trail and evidence the existence of proper controls.
- Determine significant financial tasks are prepared on schedule and have proper second-party review.
- Determine whether proper controls exist over the chart of accounts maintenance.
- Evaluate segregation of duties for reconciliations to ensure that there is separation of processes to authorize, record, and hold custody of assets.
- Verify that controls around user access to the general ledger and chart of accounts exist.
- Identify and assess the effectiveness of the controls over the monthly and annual financial close process.

Although internal interim reporting is a significant part of the County's financial reporting cycle, it was excluded from this internal audit and will be addressed during a separately issued report.

Approach

Our audit approach consisted of the following phases:

Understand and Document the Process

In order to obtain an understanding of the process and identify inherent risk and key controls to mitigate this risk, we interviewed the Finance Director, Assistant Finance Director and Financial Accounting Supervisor. We discussed the scope and objectives of the audit work, obtained preliminary data, and established working arrangements. In addition, we inquired of the department personnel and obtained detailed documentation of the process which is captured in a 'Process Map'. Once we completed the process documentation, the information was submitted to key stakeholders for validation and management concurrence on the results. This presented management with an opportunity to clarify any noted issues or challenge the accuracy of the information presented in the map. The map has been validated and approved by the process owners and are included in the Appendix section of this report.

Benchmarking and Design Assessment

The American Competitiveness and Corporate Accountability Act of 2002 (commonly known as the Sarbanes-Oxley Act or SOX) was passed in an effort to rebuild public trust in America's corporate sector. SOX was signed into law on July 30, 2002 and was passed in response to the corporate and accounting scandals of Enron and WorldCom, among others. While the law is not legally applicable to governments, they face pressures similar to those present in for-profit corporations to mismanage accounting, mislead their auditors, or influence auditor judgment.

SOX has set the standard for adequate controls surrounding financial activities in the 21st Century regardless of whether the entity is traded on the Public Exchange.

Objectives and Approach - continued

Approach - continued

Benchmarking and Design Assessment - continued

In addition, the AICPA issued the new Risk Standards (SAS 104 -111) to provide extensive guidance concerning the auditor's assessment of the risk of material misstatement in a financial audit. These standards will become applicable to Brevard County for the year end September 30, 2008. The purpose of a risk assessment is to identify the major risks facing an organization and to rank those risks in terms of likelihood of occurrence and impact to the organization.

Due to increasing financial pressure, more accountability on Audit Committees and Boards and public awareness of internal control failures, we have utilized the best practices of SOX and the SAS's as well as relevant professional literature in performing our design assessment of financial close.

The results of the benchmarking and design assessment are summarized in the following documents:

- Process Map as described above,
- Risk & Control Matrix - Key inherent risks and mitigating controls in the financial close process,
- Issues Matrix – Summarizes controls gaps and recommended remediation.

Reporting

At the conclusion of our audit, we summarized our findings related to Financial Close. We conducted an exit conference with the Assistant Finance Director and Financial Accounting Supervisor. It is our understanding the results have been communicated to the Finance Director and the Clerk of the Court. We have incorporated management's response into our report.

Issues Matrix

Issues Matrix

| Rating | Issues | Recommendation | Management Response |
|--------|--|---|--|
| | <p>1. Timing of Year End Close and Reporting</p> | | |
| | <p>In addition to the SEC benchmarking and best practices referred to in the Approach section and other issues herein, GASB Concepts Statement No. 1 “<i>Objectives of Financial Reporting</i>” states that “state and local governmental financial reports should possess these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.”</p> <p>Although current SEC requirements do not apply to the private or public sector, accounting principles and guidance have always included sound governance and availability of timely and accurate information. Financial analysis for timely decisions by stakeholders, as well as transparency and fiscal responsibility to the public is critical to the County. Financial reporting and analysis at the County will be included in a separate audit report to be issued in FY 2009.</p> <p>We noted the County’s Comprehensive Annual Financial Report (CAFR) has been dated late March for the last five years. As illustrated below, we compared the report dates for Brevard County to those of 6 peer counties and noted Brevard consistently (85% of instances) completes their financials later than the benchmark counties.</p> <p>While it is not reasonable to expect County Finance to complete financial close and have their records audited and published within 75 days of year-end (as required by the SEC for publicly-traded entities of comparable size to the County), the timing of financial close requires careful, year-long planning and monitoring to ensure relevance and timeliness, as well as reduce the impact of a lengthy close on daily operations during the subsequent accounting period(s).</p> | <p>We recommend cut off procedures be implemented and monitored for all data that is needed to complete close, including Charter Offices and component units. County Finance should implement gradual enforcement of a pre-set cutoff timeline. For example, if the cut-off goal is October 31, begin with a deadline of Dec. 31 for Year One, then November 30 for Year Two, and October 31 for Year Three. This would give each agency an opportunity to implement procedures to accelerate their close process within these guidelines.</p> <p>To reduce the risk of a material misstatement that could occur as a result of enforcing the timeline (which may require the external auditor to report a significant deficiency or material weakness in internal control), the following should occur:</p> <ul style="list-style-type: none"> ▪ Interim ‘soft’ close and pre-audit of significant account balances; ▪ Periodic analysis and/or reconciliation of key accounts or major funds, including review by a second party; ▪ Identification of complex or non-routine transactions that should require detailed documentation and further scrutiny, including second party review; ▪ Quarterly meetings of a cross-functional Financial Reporting and Disclosure Committee to identify, review and analyze significant events, transactions and disclosures that have or will occur. ▪ Review and analysis of performance measures and interim financial reports by all levels of the organization. | <p>The auditors agree that interim reporting is a significant part of the County’s financial reporting cycle, but they exclude it from this audit. We firmly believe that generating and communicating the financial information go hand-in-hand. Finance will work with County Management to best determine the appropriate allocation of our personnel resources so that financial and budgetary circumstances are effectively communicated.</p> <p>Section III B 6 of the Board’s Budget of Fiscal Policy (BCC-21) calls for the County Finance Department to annually seek the Certificate of Achievement in Financial Reporting from the Government Finance Officers Association (which addresses financial reporting and disclosure). To receive this award, the annual financial report (CAFR) must be submitted by the end of March.</p> <p>Although not mandated, providing earlier financial information to outside readers would be positive. However, significant changes in this process would increase costs and the information available to County Management would not improve over what they currently have immediate access to.</p> |

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|---|---|--|
| | <p>1. <i>Timing of Year End Close and Reporting - continued</i></p> | | |
| | <p>As illustrated in the background section of this report, there are several areas that could potentially contribute to delays in financial close, many of which are outside of the Finance department's control.</p> <p>Some typical reasons for lengthy close processes that Finance departments can control include longer lead times for receiving information from other areas, reliance on complex spreadsheets, an increasing quantity of manual journal entries, as well as the correction of errors and revisions to financial statements.</p> <p>Per discussion with Finance, a significant impact on their ability to complete close is the revision of data from Charter Offices as well as large accrual calculations, such as contracts payable for construction projects and the receipt of information from County departments needed for significant estimates.</p> <p>It should be noted that a standard close timeline that is dependent on data from several agencies is challenging to enforce and requires additional controls around completeness, revision control, accuracy and reliability of the information.</p> <p>For the financial close process itself, this issue is considered of moderate risk. However, in conjunction with financial reporting, the timing of close has a higher risk impact and will be further explored in the separate audit of Financial Reporting to be issued later this fiscal year.</p> | <p>Additionally, some Finance-specific examples for accelerating close could include:</p> <ul style="list-style-type: none"> ▪ Reduce the volume of manual journal entries by automating those that occur monthly or on a routine basis. Address the issues to eliminate future correction of the same or similar errors. ▪ Rather than holding records open for accrual of actual revenue receipts and expenditures that occur after year-end, consider estimating the amounts by using historical data and known assumptions about the amounts being estimated. ▪ Examine other activities performed by Finance personnel (including department and other agency finance staff) and determine whether any of them can be performed at a different time during the year, so as to reduce distractions during the close process. <p>See Issues #2-4, as well as the separate internal audit of Financial Reporting to be issued later this fiscal year for detailed discussion of these items.</p> | <p>Brevard County is not a publicly traded company with share prices fluctuating on a national exchange. The Securities and Exchange Commission has already issued rules involving financial disclosure and reporting by governments that issue bonds.</p> <p>We have developed an end of year schedule with important tasks and deadlines listed for the financial statement preparation process. The schedule begins in August with notification to departments of the annual inventory workshop and continues through publication of the CAFR and other reports.</p> <p>The schedule provides for a final draft of the statements to be provided to the auditors by February 23, 2009 and should allow the auditors to issue their opinion by March 11, 2009.</p> |

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|---|----------------|---|
| | <p>1. <i>Timing of Year End Close and Reporting - continued</i></p> | | |
| | | | <p>We have implemented procedures, such as earlier deadlines for interim adjusting entries and formal notification to pertinent County departments of special requests, such as the actuarial study of the self-insurance plans (workers comp, property, etc). Meeting our projected deadlines for issuance of the CAFR is dependent of receipt of timely information from County departments.</p> <p>County Finance staff conducts pre-audits and reviews of major funds and significant account balances on a monthly or quarterly basis to ensure that balances, particularly revenue and expenditure accounts are recorded correctly. We will develop procedures to document these reviews.</p> <p>We have already identified a number of routine monthly or quarterly entries and have established a procedure to automate these entries for the current year. Finance is willing to include major revenue accruals in a quarterly “soft close” after receiving assurance from the Budget Office and County Management that such information would be useful. We will work with the Budget Office and County Management to further develop a format that is deemed most appropriate.</p> |

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|--|----------------|--|
| | 1. <i>Timing of Year End Close and Reporting - continued</i> | | |
| | | | <p>Although estimating major revenue sources at year-end could be accomplished, it would be extremely difficult to estimate expenditure accruals with sufficient accuracy. The decentralized manner in which vendor invoices are received and processed makes it impractical for our office to estimate expenditures.</p> <p>Estimated Completion Date: March, 2009</p> |

CAFR Five-Year Issuance Dates*

| County | 2007 | 2006 | 2005 | 2004 | 2003 |
|----------------|------------|------------|------------|------------|------------|
| Brevard | 03/21/2008 | 03/23/2007 | 04/17/2006 | 03/25/2005 | 03/23/2004 |
| Lee | 01/31/2008 | 12/21/2006 | 12/17/2006 | 01/24/2005 | 01/26/2004 |
| Manatee | 11/28/2007 | 11/29/2006 | 11/30/2008 | 11/30/2004 | 11/26/2003 |
| Pasco | 04/28/2008 | 06/04/2007 | 03/03/2006 | 02/04/2005 | 02/06/2004 |
| Polk | 04/08/2006 | 02/06/2007 | 03/10/2006 | 04/06/2005 | 02/16/2004 |
| Seminole | 03/15/2008 | 03/20/2007 | 03/31/2006 | 03/30/2005 | 02/27/2004 |
| Volusia | 03/17/2008 | 02/07/2007 | 03/27/2006 | 03/22/2005 | 03/19/2004 |

*These dates are independent auditor report dates and could be substantially different than the date issued to the Board. As an example, the 9/30/07 Brevard CAFR had a report date of 3/21/08, and was not presented to and acknowledged by the Board of County Commissioners until April, 2008. Including an item on the Board's consent agenda requires a two-week lead time.

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|---|--|---|
| | <p data-bbox="296 256 919 285">2. <i>Interim Close, Analysis and Reconciliation</i></p> <p data-bbox="296 289 919 591">In addition to the SOX benchmarking and best practices referred to in the Approach section and other issues herein, the Government Finance Officers Association’s Recommended Practice states the following in relation to financial statement review and analysis, “A government should undertake a process at least quarterly to ensure the ongoing completeness and accuracy of the data it collects including a financial analysis of interim management reports to identify anomalous or incomplete data that may need to be corrected.”</p> <p data-bbox="296 626 590 652"><u>Interim Close and Analysis</u></p> <p data-bbox="296 656 919 834">Although Fund Accountants and other Finance personnel perform accounting and review procedures throughout the year, there is no formal “soft close” process at the end of each accounting period, which should include formal (documented) analysis of key accounts, subsidiary reconciliations and review of key financial indicators.</p> <p data-bbox="296 870 919 1172">Although County Management and Departments may pull general ledger accounts “real time”, due to the lack of a formal “soft close”, the reports may not include all of the data the agencies may want to perform budget, cost or other financial analyses. In addition, formal financial reporting and analysis is not provided to the Board on a monthly basis. This is more fully detailed in a separate audit report of Financial Reporting. We do note that Finance has stated other agencies have not asked them to provide more data than is already being provided.</p> | <p data-bbox="940 289 1516 409">We recommend that a formal close process be developed to include preparation and review of key account reconciliations on a standard periodic basis, preferably monthly but at a minimum quarterly.</p> <p data-bbox="940 444 1516 591">Procedures around the interim “soft close”, year end close and account reconciliation should be outlined, defined and incorporated into a comprehensive procedures manual, in conjunction with the recommendation at Issue #5.</p> <p data-bbox="940 626 1516 711">In order to facilitate a more timely financial close process, the procedures as they relate to reconciliation should address at a minimum:</p> <ul data-bbox="951 714 1516 1140" style="list-style-type: none"> ▪ A listing of all key reconciliations and the frequency of their preparation (monthly, quarterly, annually), ▪ Define a reasonable timeframe for completion, (usually within 30 days after month- or quarter-end) ▪ Define a reasonable timeframe for review (within 45 days after month- or quarter-end) ▪ Require preparer/review sign-off and date ▪ Require and describe “acceptable supporting documentation” necessary to attach to reconciliations ▪ Define an acceptable timeframe allowed to resolve reconciling items. <p data-bbox="940 1175 1516 1321">Additionally a financial close checklist should be implemented to outline and assign the tasks that will occur at closing. The close checklist should identify the frequency of the tasks assigned, so as to include specific tasks that only occur at year-end.</p> <p data-bbox="940 1357 1516 1442">Additional recommendations for financial close are included in a separate audit report over Financial Reporting.</p> | <p data-bbox="1537 289 1944 467">County Finance staff performs monthly account reconciliations as necessary. These reconciliations are not all formally reviewed and supervisor sign-off is not always documented.</p> <p data-bbox="1537 503 1944 805">We will develop documentation procedures for the reconciliations currently performed for month end and for the first, second and third quarters. This documentation will include the key reconciliations, timeframes for completion, resolution of reconciling items and review as well as documentation of supervisor sign-off.</p> <p data-bbox="1537 841 1864 896">Estimated Completion Date: January, 2009</p> |

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|---|----------------|---------------------|
| | <p>2. <i>Interim Close, Analysis and Reconciliation - continued</i></p> | | |
| | <p><u>Reconciliation</u> Although we understand the nature of specific accounts does not make it practical to reconcile more frequently than on an annual basis, most account reconciliations performed by Finance are not documented on a standard periodic basis, such as monthly or quarterly. In addition, while we noted that fund financial statements and their supporting documentation (including reconciliations) were prepared and reviewed annually, the specific account reconciliations were not signed off by a second party reviewer. Interim reconciliations that were prepared also did not include second party review.</p> <p>General journal entries for those reconciliations are reviewed, but they did not have the supporting account reconciliation attached indicating agreement to the general ledger and any reconciling items.</p> <p>Reconciliation of financial accounts helps to ensure detection of irregularities within a reasonable timeframe (usually, within 30 days after month-end) in order to allow for accurate financial reporting, as well as effective decision making.</p> <p>Without timely preparation, review and analysis of reconciliations, the identification of potential irregularities may not occur on a timely basis.</p> <p>In addition, interim reconciliations will facilitate a more timely close process at year-end.</p> | | |

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|---|---|---|
| | <p>3. Complex and Non-routine Transactions</p> | | |
| | <p>Statement on Auditing Standards No. 112, <i>Communicating Internal Control Related Matters Identified in an Audit</i> (SAS 112) increases the need for government agencies to more clearly document their controls over financial reporting.</p> <p>SAS 112 clarifies that it is not sufficient for the external auditor to determine if financial statements are fairly presented in accordance with GAAP; but that management is able to produce financial statements that are in accordance with GAAP. Audit adjustments that are presented to the County by their external auditor may require the auditor to report a significant deficiency or material weakness in internal control.</p> <p>As such, we noted there is no separate identification of transactions that are complex, require significant adjustment or estimates or are not routine to the closing process. Additionally, the review procedures for these transactions are the same as other routine journal entries.</p> <p>Not separately analyzing, or documenting the analysis, of complex or non-routine transactions or changes in accounting policies and methodologies for applying accounting pronouncements could result in misstatement of financial records.</p> | <p>We recommend Finance create a listing of complex transactions (such as those supported by significant manual calculations, spreadsheets or the use of estimates) as well as outline a process for identifying non-routine transactions for further review.</p> <p>These items should be reviewed in more detail from standard routine journal entries and require approval by two supervisory personnel, rather than one.</p> <p>Additionally, the reasoning and methodology of the following types of transactions should be documented in a memorandum of understanding for approval by senior leadership and/or the Financial Reporting and Disclosure Committee:</p> <ul style="list-style-type: none"> ▪ Key assumptions used for estimates or non-routine transactions ▪ Changes in accounting policies ▪ Implementation of new accounting and reporting pronouncements <p>Some examples of transactions that should be further scrutinized include:</p> <ul style="list-style-type: none"> ▪ Operating vs. capital leases ▪ Capitalization and depreciation of completed capital projects ▪ Grant revenue recognition and expenditure classification ▪ Gains on sale or disposal of assets ▪ Reserves or restricted fund analysis ▪ Referendum ▪ Bond issues ▪ Write-offs ▪ Compensated absences <p>The Financial Reporting and Disclosure Committee is more fully described in Issue #4.</p> | <p>Complex and/or routine journal entries will be identified in the future by a separate transaction code and will be reviewed by two accounting supervisors prior to posting.</p> <p>Estimated Completion Date: October, 2008</p> |

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|--|---|--|
| | <p>4. Financial Reporting and Disclosure Committee</p> | | |
| | <p>Recent risk assessment audit standards issued by the American Institute of Certified Public Accountants (AICPA) indicate that boilerplate disclosures and Management’s Discussion & Analysis are no longer sufficient due to increased regulatory attention, changes in reporting requirements, and increased scrutiny due to budget constraints. In addition, several accounting pronouncements have been updated as a result of the Sarbanes-Oxley Act.</p> <p>As such, the role of a Financial Reporting and Disclosure Committee has become increasingly more significant as organizations work to implement and maintain adequate controls over financial reporting.</p> <p>Many such committees are governed by a charter to establish the scope and detail within which the committee will operate and are comprised of internal staff and often include legal counsel, accounting personnel and internal auditors.</p> <p>The County does not have a financial reporting and disclosure committee or other similar function for independently analyzing transaction, significant events and reviewing prepared reports and disclosures; as well as monitoring events that may require disclosure in the County’s financial reports.</p> | <p>We recommend the appointment of a Financial Reporting and Disclosure Committee to review financial reports, disclosures and analysis prepared by County Finance and/or other agencies for reasonableness.</p> <p>A charter should be adopted to establish the scope and detail within which the committee will operate, including the composition of the committee, the requirements for collecting and evaluating information that may need to be disclosed, and how communication will occur. We recommend the Committee meet at least quarterly.</p> <p>In order to facilitate communication between departments and County management, we recommend the Financial Reporting and Disclosure Committee be comprised of a cross-functional team so as to include people with knowledge of industry and specific agency events as well as financial reporting requirements. This could include key representatives from Charter Offices, departmental and County leadership, including finance and budget personnel, and possibly a representative from the Audit Committee.</p> <p>The County will need to consider Sunshine Laws and how creating a Financial Reporting and Disclosure Committee will be included under public records requirements.</p> | <p>The County does have a function for reviewing significant events to comply with continuing disclosure requirements of the Securities and Exchange Commission Rule 15C2-12. These potential disclosures are coordinated between the County Attorney, County Management and Finance along with the contracted disclosure council attorneys. These procedures are agreed to by the Board of County Commissioners whenever publicly traded bonds are issued and the information is regularly reported to the repositories. Finance also requested a list of governments with a financial reporting and disclosure committee, but the auditors were unable to provide one.</p> <p>In addition to the legally required information addressed above, County Finance monitors transactions significant events and any other financial issues that may call for disclosure. If the Board and County Manager wishes to establish and coordinate a committee beyond the administrative support currently used, a representative of County Finance would participate.</p> |

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|---|----------------|--|
| | <p>4. <i>Financial Reporting and Disclosure Committee - continued</i></p> | | |
| | <p>Some of the items analyzed by a Financial Reporting and Disclosure Committee could include the following:</p> <ul style="list-style-type: none"> ▪ Review minutes of Commission meetings to identify items requiring additional, review, analysis or disclosure; ▪ Review all disclosure statements containing material financial or other material information; ▪ Provide oversight of the design, development, implementation and ongoing effectiveness of the controls and procedures necessary to provide complete, accurate and timely reports and disclosures; discuss opportunities for improvement with management and the Audit Committee; ▪ Assess the materiality of specific events, developments or risks to the County brought to the attention of the Committee or identified by a member of the Committee and advice on disclosure; ▪ Review the financial disclosure issues that are significant to the County and other material matters which include significant judgments. | | <p>Estimated Completion Date: To be determined after the issuance of the financial reporting.</p> |

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|---|---|--|
| | <p>5. Documented Procedures</p> | | |
| | <p>The Government Finance Officers Association's Recommended Practice is the documentation of Accounting Policies and Procedures. It states the following,</p> <p><i>“Communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff.”</i></p> <p>County Finance does not have a documented Accounting Policies and Procedures manual. We did note, however, that a general process is followed and some of the staff maintains their own written desk procedures.</p> <p>Centralized, standardized, documented procedures provide vital information to employees to ensure accurate and consistent financial reporting as well as provide management with a benchmark that can be used to monitor against to ensure that staff perform processes that are consistent, accurate, on schedule and that are properly reviewed, where applicable. In addition, in the event of absences, employee turnover or other occurrences these procedures are critical to the on-going internal control structure.</p> | <p>We recommend County Finance create a formal Accounting Policies and Procedures Manual documenting the comprehensive procedures in place over financial processing and close. This will help to ensure proper accountability and communication of controls over the financial close process.</p> <p>In addition, County Finance should establish a process for its supervisory personnel to periodically review the manual to ensure that the procedures properly reflect changes in authoritative guidance and regulations.</p> <p>The procedures manual should be made available to, at a minimum, all Finance personnel. This can be done via the internet or shared network directories.</p> <p>A training session introducing the Comprehensive Procedures manual should be provided to all Finance staff along with discussion of all issues noted within this report. Refresher training should be held as significant updates to the procedures or accounting authoritative guidance are made. Training will reinforce the importance of compliance and will create a forum for staff at all levels to discuss their challenges and share their successful methods as possible best practices to be incorporated into the manual.</p> | <p>Numerous individual procedures exist for such areas as journal entries, running reports for financial statements, preparation of financial statement spreadsheets. County Finance staff will compile these individual procedures as well as other identified procedures into a formal manual. Completion of this project will need to be deferred however until after the FY 2008 financial statements are prepared, due to staffing constraints.</p> <p>Estimated Completion Date: June, 2009</p> |

Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|--|----------------|---------------------|
| | 5. Documented Procedures -continued | | |
| | <p>A procedures manual will assist the Department with achieving the following:</p> <ul style="list-style-type: none"> ▪ Ensure that all activities leading up to the financial closing process along with general ledger related activities, reviews, reconciliation and reporting activities are well established and documented. This includes the identification and updating of external financial reporting requirements and deadlines along with documentation of the methodology, format, and frequency of the analyses of the financial statements. ▪ Ensure that procedures and timetables for communicating relevant information affecting the financial closing and reporting process within the County are established, sufficiently documented, and updated at least annually. ▪ Ensure that management and financial closing/reporting personnel identify, properly document and communicate all applicable generally accepted accounting principles affecting the County and incorporate into its accounting procedures in order to reflect the most recent, applicable authoritative guidance and achieve consistency across accounting periods. | | |

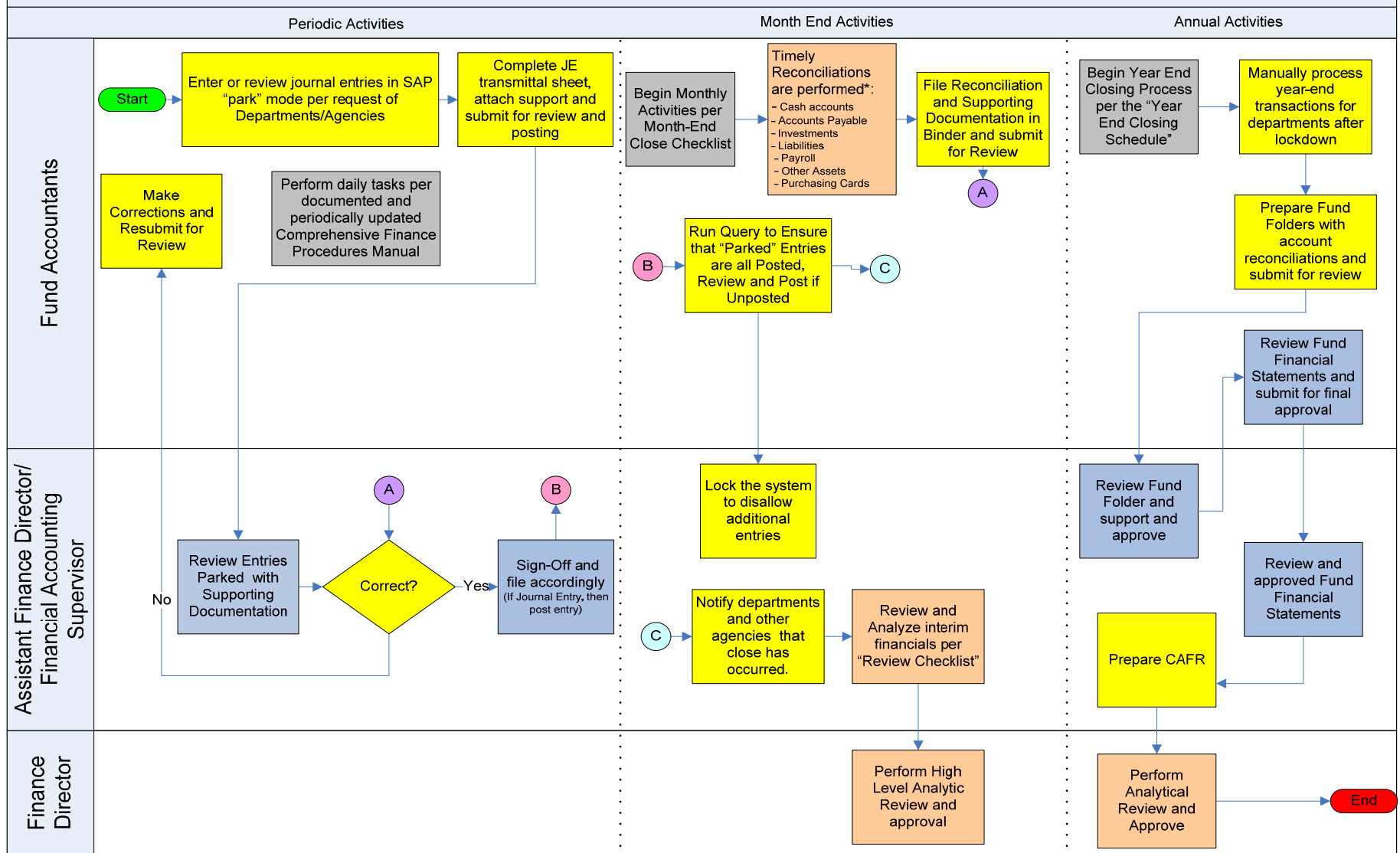
Issues Matrix - continued

| Rating | Issues | Recommendation | Management Response |
|--------|--|---|---|
| | <p>6. <i>Chart of Accounts Maintenance</i></p> | | |
| | <p>A chart of accounts is a list of all accounts names in the general ledger that is designed to capture financial information necessary to make good financial decisions and proper reporting in accordance with Governmental Accounting Standards Board (GASB), Objectives of Financial Reporting.</p> <p>Although we noted that access to request, approve, create and inactivate accounts in the general ledger is limited, there is not a formal process to request and approve such requests.</p> <p>A formal documented process that requires approval helps ensure that changes made to the chart of accounts, and ultimately the financial records of the County, are valid and authorized.</p> | <p>A policy for additions and changes to the chart of accounts should be outlined, defined and incorporated into the comprehensive procedures manual, in conjunction with the recommendation at Issue #5.</p> <p>The policy should include a formal documentation and approval process, including approval procedures for email requests. This will ensure that changes to the chart of accounts are monitored and that any significant changes made are independently reviewed and approved as evidenced by sign-off.</p> <p>In addition, we recommend that the policy incorporate procedures to inactivate unused accounts after a specified period, such as two (2) consecutive years.</p> | <p>Access to create or change general ledger master data is restricted to the Accounting Supervisor and Assistant Finance Director. By default, either one of these individuals must approve any master data changes since they are the only ones who have access through SAP to enter new accounts or make changes.</p> <p>We will develop a written procedure including approval procedures for email requests.</p> <p>Unused and obsolete accounts are reviewed periodically and inactivated (blocked for future posting) as needed.</p> <p>Estimated Completion Date: November, 2008</p> |

Process Map

Process Map

Brevard County – General Ledger & Financial Close



* Some reconciliations (water/sewer receivables, ambulance services, cash and investments) are prepared monthly. However, most reconciliations are only prepared at year-end.

** A documentation gap indicates that a control is currently in place but not properly documented. A gap indicates that either a control is not currently in place or it is not operating effectively.

Risk and Control Matrix

Risk and Control Matrix

| Risk | Existing or Desired Control | Design Adequacy* |
|---|---|------------------|
| What ensures that there is proper segregation of duties? | | |
| | All journal entries require second party review. Access to posting journal entries to the general ledger is restricted to the appropriate personnel within the Finance Department. | Effective. |
| | Access to add/delete/modify the Chart of Accounts is restricted to the appropriate personnel. | Effective. |
| | Access to critical financial spreadsheets is appropriately restricted to the Finance Department, via a shared network directory. | Effective. |
| What ensures that reconciliations for all significant accounts are performed properly, prepared on a timely basis, are independently reviewed and that issues identified are resolved and recorded in the general ledger on a timely basis? | | |
| | Reconciliations are performed on a timely basis, with second party review. Unusual items and exceptions in analyses and reconciliations are documented upon identification. Resolution and treatment of unusual items identified are documented and reviewed independently for appropriateness on a timely basis. Evidence of review is documented. | See Issue #2. |
| What ensures that financial reporting deadlines, methodology, format, and frequency of required analysis are met? | | |
| | The annual year-end close process is performed by the Finance Department per the "Year End Closing" Checklist, which outlines the step by step process of the closing process to ensure are steps are completed (including the format, timeline, preparers and reviewers) for year end and periodic financial reporting based on the specific characteristics of the organization and reporting agencies. | See Issue #2. |

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Risk and Control Matrix - continued

| Risk | Existing or Desired Control | Design Adequacy* |
|--|---|--|
| | The Finance Department has an established well-defined process (including the format, timeline, preparers and reviewers) for period periodic reporting required to various government agencies. | See Issue #5. |
| | Management has processes in place to ensure that all analyses are appropriately performed and independently reviewed (e.g., frequency of analyses/review) are formally documented, approved, and reviewed per the year-end checklist. | See Issues #2 and #4. |
| | The Finance Department and Department Accountants performs their tasks per a Comprehensive Finance Procedures Manual and related guidance (e.g. checklists). The manual and related guidance is reviewed and updated on a regular basis and distributed via the intranet. Adequate training is provided to new employees and updates are explained as needed. | See Issue #5. |
| What ensures that roles and responsibilities in the annual and monthly financial closing and reporting process, including a required understanding of the entity's operations and appropriate accounting knowledge, are clearly defined, documented, updated, and communicated to appropriate departments and individuals on timely basis? | | |
| | The annual year-end close process is performed by the Finance Department per the "Year End Closing" Checklist, which outlines the step by step process of the closing process to ensure are steps are completed (including the format, timeline, preparers and reviewers) for year end and periodic financial reporting based on the specific characteristics of the organization and reporting agencies. | See Issue #2. |
| | Management defines, documents, communicates, and periodically reviews roles and responsibilities in the financial closing process defined in a year-end checklist. | See Issue #2. Also, roles and responsibilities are separately addressed in Financial Reporting internal audit. |

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Risk and Control Matrix - continued

| Risk | Existing or Desired Control | Design Adequacy* |
|--|---|------------------|
| What ensures that non-routine events and transactions (including judgments and estimates) are appropriately identified and recorded? | | |
| | Non-routine transactions that rise to the level of disclosure, material subsequent events and new pronouncements and application of GAAP, if applicable, are reviewed in detail by an Accounting Supervisor or above. | Effective. |
| | A methodology application memo is prepared each year during the preparation of the CAFR to document significant judgments and estimates included in the financial records and an independent review of the memo and underlying assumptions is performed by an appropriate party. | See Issue #3. |
| | A Financial Reporting and Disclosure Committee reviews methodology memoranda, significant complex or non-routine entries and estimates, as well as monitors industry and agency-specific events for possible disclosure. Their review is documented in Committee meeting minutes, held at least quarterly. | See Issue #4. |
| What ensures that journal entries are reviewed, authorized, and properly recorded in the appropriate accounting period? | | |
| | All journal entries require second party review. Access to posting journal entries to the general ledger is restricted to the appropriate personnel within the Finance Department. | Effective. |
| | The annual year-end close process is performed by the Finance Department per the "Year End Closing" Checklist, which outlines the step by step process of the closing process to ensure are steps are completed (including the format, timeline, preparers and reviewers) for year end and periodic financial reporting based on the specific characteristics of the organization and reporting agencies. | See Issue #2. |

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Risk and Control Matrix - continued

| Risk | Existing or Desired Control | Design Adequacy* |
|---|--|-----------------------|
| What ensures that the trial balance and financial statements are in balance for monthly and annual reporting? | | |
| | The system is locked and the period is closed per the system configuration in order to disallow additional entries to be made at the department level as of 10/31. | Effective. |
| | The Assistant Finance Director performs a reasonableness review of CAFR to the general ledger for completeness of linkage. Evidence of review final is documented on the year-end checklist. | See Issues #2 and #5. |
| | The Finance Director reviews the final financial statements for completeness and accuracy, including confirmation that all adjustments are correctly recorded in the consolidated financials, and performs an overall analytical review of year-to-date operations and a comparison to the budget and prior year. Evidence of review is documented on the year-end checklist. | See Issue #2. |
| What ensures that the financial statements and disclosures are complete, accurate, and in accordance with Governmental Fund Accounting? | | |
| | The Assistant Finance Director performs a reasonableness review of CAFR to the general ledger for completeness of linkage. | Effective. |
| | The Finance Director reviews the final financial statements for completeness and accuracy, including confirmation that all adjustments are correctly recorded in the consolidated financials, and performs an overall analytical review of year-to-date operations and a comparison to the budget and prior year. Evidence of review is documented on the year-end checklist. | See Issue #2. |
| | A GFOA Certificate Program general preparer checklist is completed and reviewed for each set of annual financial statements. The purpose of the checklist is to assist with CAFR preparation and certificates are issued by the GFOA to any entity that has prepared their CAFR in accordance with the checklist. The checklist incorporates GAGAS and GASB, and is updated annually to capture new and upcoming pronouncements. | Effective. |

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Risk and Control Matrix - continued

| Risk | Existing or Desired Control | Design Adequacy* |
|---|---|------------------|
| What ensures that the trial balance and financial statements are in balance for monthly and annual reporting? | | |
| | A Financial Reporting and Disclosure Committee reviews methodology memoranda, significant complex or non-routine entries and estimates, as well as monitors industry and agency-specific events for possible disclosure. Their review is documented in Committee meeting minutes, held at least quarterly. | See Issue #4. |
| | The County Commissioners are presented with annual financial statements including the adopted budget amounts, budget amendments and year-to-date operations for their review and acceptance. | See Issue #1. |
| What ensures that the financial statements are not misstated because reconciliations of significant accounts, including suspense accounts, are not performed? | | |
| | Reconciliations are performed on a timely basis, with second party review. Unusual items and exceptions in analyses and reconciliations are documented upon identification. Resolution and treatment of unusual items identified are documented and reviewed independently for appropriateness on a timely basis. Evidence of review is documented. | See Issue #2. |
| What ensures the published financial statements (in print and electronic form) do not have publishing, printing, or electronic conversion errors? | | |
| | The Assistant Finance Director performs a reasonableness review of CAFR to the general ledger for completeness of linkage. | Effective. |
| | The Finance Director reviews the final financial statements for completeness and accuracy, including confirmation that all adjustments are correctly recorded in the consolidated financials, and performs an overall analytical review of year-to-date operations and a comparison to the budget and prior year. Evidence of review is documented on the year-end checklist. | See Issue #2. |

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Risk and Control Matrix - continued

| Risk | Existing or Desired Control | Design Adequacy* |
|--|---|------------------|
| | The County Commissioners are presented with annual financial statements including the adopted budget amounts, budget amendments and year-to-date operations for their review and approval. | See Issue #1. |
| What ensures that the financial statements are not misstated because all departments are not identified and appropriately included in the consolidated process? | | |
| | The Assistant Finance Director performs a reasonableness review of CAFR to the general ledger for completeness of linkage. | Effective. |
| | The Finance Director reviews the final financial statements for completeness and accuracy, including confirmation that all adjustments are correctly recorded in the consolidated financials, and performs an overall analytical review of year-to-date operations and a comparison to the budget and prior year. Evidence of review is documented on the year-end checklist. | See Issue #2. |
| | A Financial Reporting and Disclosure Committee reviews methodology memoranda, significant complex or non-routine entries and estimates, as well as monitors industry and agency-specific events for possible disclosure. Their review is documented in Committee meeting minutes, held at least quarterly. | See Issue #4. |
| | The County Commissioners are presented with annual financial statements including the adopted budget amounts, budget amendments and year-to-date operations for their review and approval. | See Issue #1. |
| What ensures that all trial-balance accounts are appropriately and consistently grouped for presentation in the financial statements for all accounting periods presented? | | |
| | Accounts are grouped accordingly based to industry guidelines. | Effective. |
| | The Assistant Finance Director performs a reasonableness review of CAFR to the general ledger for completeness of linkage. | Effective. |

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Risk and Control Matrix - continued

| Risk | Existing or Desired Control | Design Adequacy* |
|---|--|-----------------------|
| What ensures that changes made to the financial closing and reporting process are valid and properly authorized? | | |
| | Changes to the entity's financial closing and reporting process (e.g., changes to the chart of accounts, including addition and deletion of general ledger accounts) are monitored and any significant changes made are independently reviewed and approved. | See Issue #6. |
| What ensures that Management and financial closing and reporting personnel identify all applicable generally accepted accounting principles affecting the entity and that the entity's accounting policies reflect the most recent, applicable authoritative guidance and are properly documented and communicated to achieve consistency across business units and accounting periods? | | |
| | Personnel at the management level attend industry conferences and trainings on new authoritative guidance and disseminate information to the fund accountants and departments if necessary and relevant. | Effective. |
| | Knowledgeable personnel monitor changes in authoritative guidance and regulations that affect the entity and make the appropriate changes to the entity's corporate accounting policies on a timely basis. | See Issues #3 and #4. |
| | A Financial Reporting and Disclosure Committee reviews methodology memoranda, significant complex or non-routine entries and estimates, as well as monitors industry and agency-specific events for possible disclosure. Their review is documented in Committee meeting minutes, held at least quarterly. | See Issue #4. |

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Risk and Control Matrix - continued

| Risk | Existing or Desired Control | Design Adequacy* |
|---|--|------------------|
| What ensures that accounts are properly consolidated into Fund Financial Statements and Government-wide Financial Statements? | | |
| | Access to critical financial spreadsheets is appropriately restricted to the Finance Department, via a shared network directory. | Effective. |
| | Individual fund reconciliations are performed for each fund annually and reviewed by an Accounting Supervisor or above. The individual fund financial statement is then prepared and reviewed by both the Fund Accountant and supervisor prior to final consolidation into the CAFR. | Effective. |
| | A reconciliation of the fund financial statements to the government-wide financial statements are prepared and reviewed by appropriate personnel. | Effective. |

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