

Perspectives on Audits

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What Is Audit? Who Are The Auditors?

Definition of Internal Auditing:

“Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes.” (It’s a fancy definition, but audits and auditors are still just the people who bother you.)

The Auditors can be:

- ▶ A Campus Auditor (Mike Zachary, CSUSB University Internal Auditor)
- ▶ From the CO (Head Office Auditors - Lots of them!)
- ▶ From KPMG (Financial Statement and OMB A-131 Single Audit Compliance Auditors)
- ▶ Many Others! (Most commonly Federal, the CA State Auditor, CALPERS Auditor, etc.)

Typical Auditor Background and Training

Typical Auditors Qualities - But not set in stone:

Auditors are typically “accountants” who have had special training in audit. Years ago, auditors were taken from departments and trained in auditing. Now, business and industry trains accountants/financial types extensively and gets them certified.

- ▶ Education can be varied, but mainly accounting, business and finance degrees.
- ▶ A wide variety of certifications:
 - ▶ CIA (Certified Internal Auditor) is an international certification
 - ▶ CFE (Certified Fraud Examiner) a national certification
 - ▶ CISA (Certified Information Systems Auditor) a national certification
 - ▶ CMA (Certified Management Accountant) a national certification
 - ▶ CPA (Certified Public Accountant) a state-by-state license
 - ▶ And many other C _ _ _ certifications

Types Of Audits

What Kinds of audits do these people do?

- ▶ Compliance audit ...
- ▶ Construction audit ...
- ▶ Financial audit ...
- ▶ Information systems audit ...
- ▶ Investigative audit ...
- ▶ Operational audit ...
- ▶ Process audit ...
- ▶ Tax audit ...
- ▶ Consultations and advisory audits.

In other words, as long as the money is good, auditors keep auditing!

Qualities Of A Good Auditor

What are the most standard qualities, or benchmarks of a good auditor?

- ▶ Honesty
- ▶ Tactfulness
- ▶ Hard Working
- ▶ Impartial
- ▶ Cautious and Vigilant
- ▶ Methodical
- ▶ Analytical
- ▶ Inquisitive and Curious
- ▶ **Common Sense!**

So What Do Auditors Do For You?

Lets Discuss These:

- ▶ External Auditors
- ▶ Internal Auditors

Have you ever had either one of these audit your area?

What are your perceptions of either or both?

Differences: Internal vs. FS / External

Internal Audit

- ▶ Broad focus
 - ▶ Reliable financial statements
 - ▶ Efficiency/effectiveness
 - ▶ Accomplishing objectives
 - ▶ Compliance w/laws, policy
 - ▶ Safeguarding assets
- ▶ Diverse skills sets are required
- ▶ **Integral part of the organization**

Financial Statement / External Audit

- ▶ Specific focus
 - ▶ Accurate financial statements
 - ▶ Going concern
 - ▶ Reviewing historical data
 - ▶ Compliance with accounting and other regulations
- ▶ Primarily accounting skills
- ▶ **Independent from the organization**

What are Auditors Interested In?

Internal Control

- ▶ **The most simple definition:** Internal Control is a management tool used to provide reasonable assurance that managements objectives are being met.
- ▶ **A more formal definition:** Internal Control is a process for assuring achievement of an organizations objectives in operational effectiveness, and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies. [Operations, Financial Reporting, Compliance]

Internal Control History

Internal control has always been around. Think about it. What controls do you have in your job, or at home?

Internal Control Model Development in the USA

- ▶ SEC and Congress: Foreign Corrupt Practices act of 1977
- ▶ The Treadway Commission
- ▶ The Committee on Sponsoring Organizations (COSO)

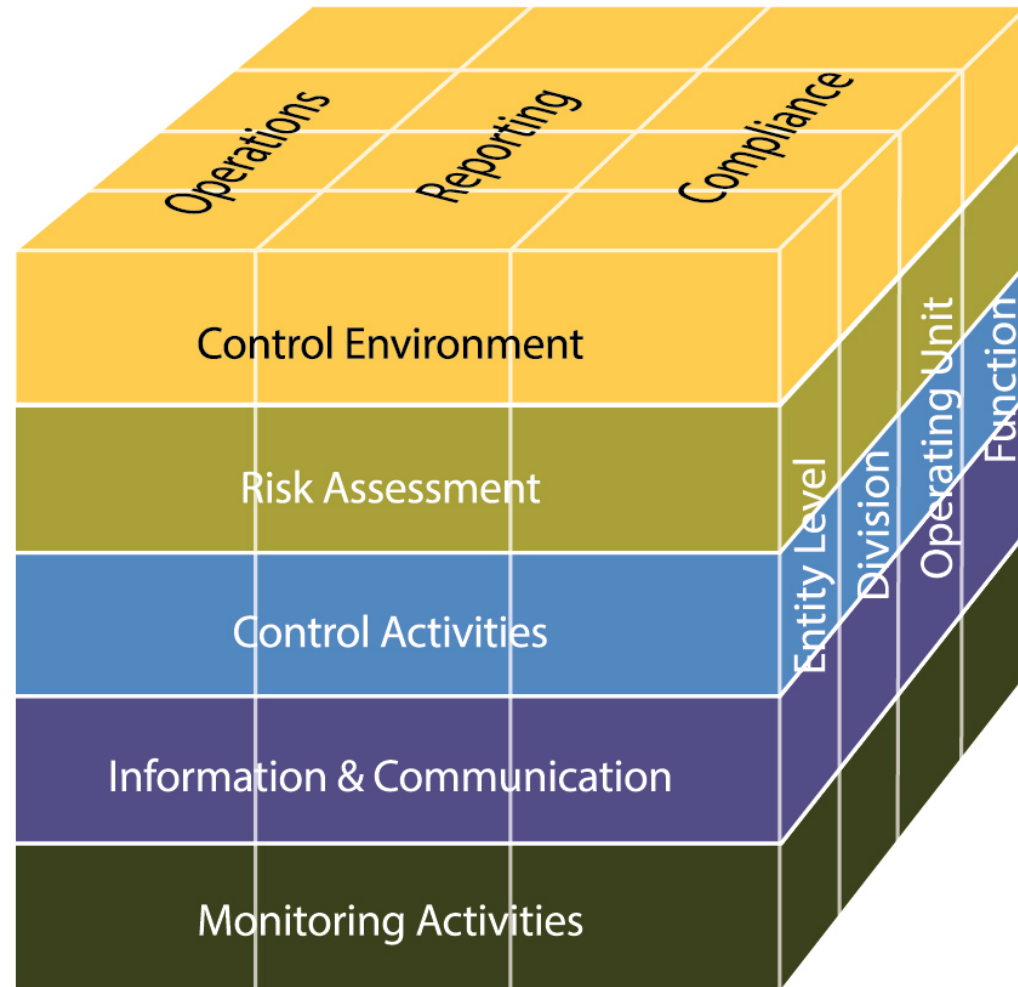
Elements of Internal Control (A Model)

Internal Control, According to:

The Committee on Sponsoring Organizations (COSO)

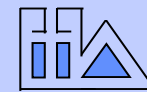
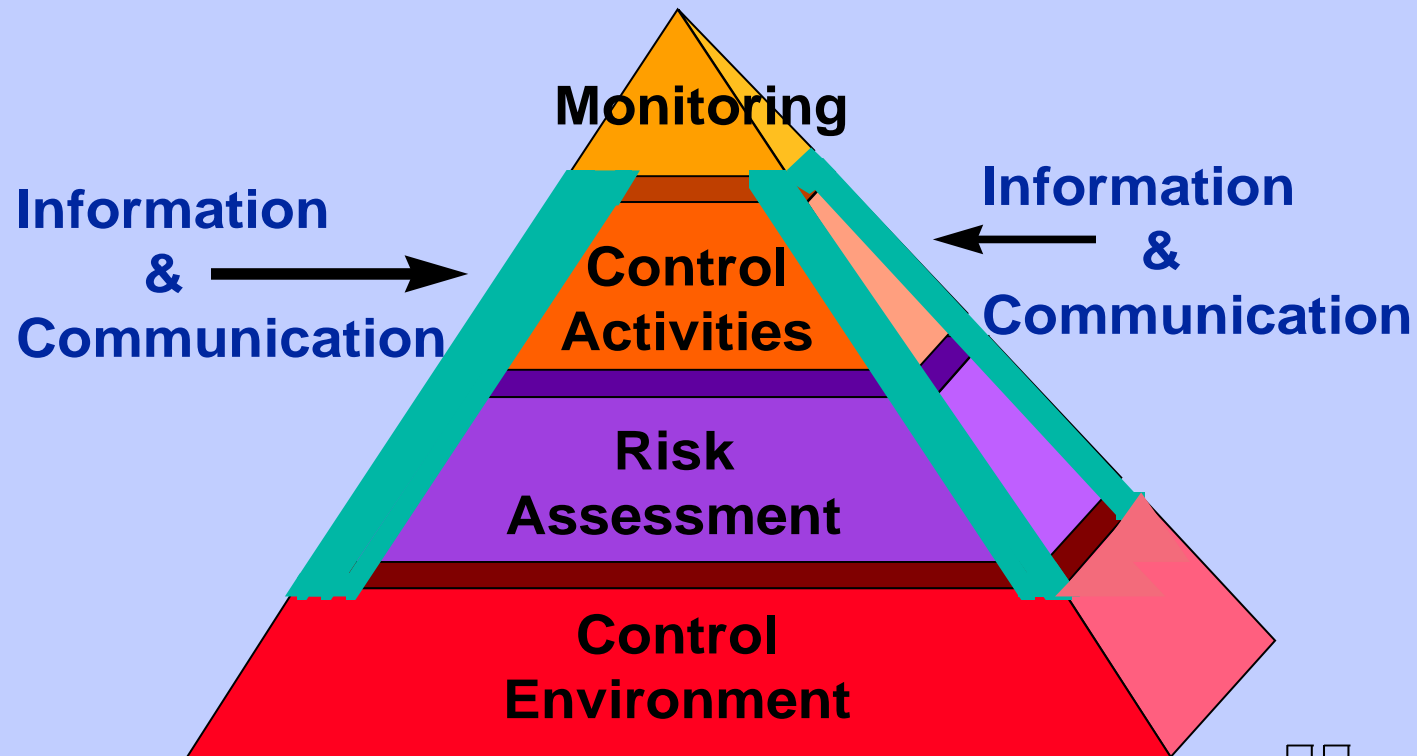
- ▶ Control Environment
- ▶ Risk Assessment
- ▶ Control Activities
- ▶ Information and Communication
- ▶ Monitoring

The COSO Cube (For Internal Control)



COSO Pyramid

Graphical Representation



Now You've Seen the Basics ...

Can we do audits?

How would You perform an audit of any area?

Take these steps:

- ▶ Ask: What are Management's Objectives?
- ▶ Ask: What are the Risks that the objectives will not be met?
- ▶ Determine: What Internal Controls ensure objectives will be met?
- ▶ Perform: An Evaluation (tests) of the Internal Controls
- ▶ Arrive At: Your Conclusion
- ▶ Do You Have Findings?

A Table to Evaluate Controls

OBJECTIVES	RISKS	CONTROLS	TESTS	CONCLUSIONS
Process Applications Timely	Employee Absences	Cross-Training	Test 5 Training Records	One employee was not trained
Process Applications Timely	Slow approval process	Policy for mandatory approval within one day	Test 20 approvals	Two approvals were late
Follow Emergency Policies	Employees are not aware of policies	Distribute Emergency Policies by e-mail and web pages	Obtain email. View web pages	Found email. Found web pages

- ▶ You can add all the Objectives and Risks you want
- ▶ No Control = An Audit Finding
- ▶ Bad Test Results = An Audit Finding
- ▶ Draw Your Own Conclusions!

DONE!

Now You Can Audit Anything!

Diane Trujillo Also Has Some Comments

The Audit Climate for Sponsored Programs Administration

- ▶ Currently have approximately 300 active projects with funding from various federal, state, local, and non-governmental agencies.
- ▶ Uniform Guidance updated OMB regulations and has enhanced the audit climate. More focus on internal controls.
- ▶ More agencies are conducting and/or requiring audits on their awardees.
- ▶ We are typically subject to financial, compliance or operational audits due to the nature of our work.
- ▶ Audits can be conducted through review of various documents only or through site visits in which we have documents ready for them when they arrive.
- ▶ They will commonly refer to these as desk reviews or monitoring. Regardless of the manner in which they conduct these they are in reality auditing our operations.
- ▶ As a recipient of federal awards that spend more than \$750k in federal funds we are required to have a Single Audit annually (part of UEC audit) conducted by an external CPA firm.
- ▶ The objective is to provide assurance to the federal government as to the management and use of funds by recipients - it encompasses a financial and compliance component.
- ▶ In addition, we have had audits conducted by the CO, SBA, Dept. of Ed, NSF, and various local agencies.
- ▶ In June 2016, we had our first audit/site visit by HHS OIG - will discuss later.
- ▶ Earlier this month, we were notified by USDA - they will be conducting a compliance review. First one by this agency. No confirmation of how it will be conducted - site visit or review of documents only.

So you're being audited??

The first reaction



Audit Notification

It is manageable and you will get through it

- ▶ Overcome your first reaction - you will survive.
- ▶ Cooperate with the auditors by responding promptly to their notice and be honest about scheduling the audit.
- ▶ Scope of audit (type) is usually provided on initial notice. May also include audit date, document requests and deadlines.
- ▶ Know it can take time to prepare - may impose on your time and on your departmental operations.
- ▶ Don't be afraid to call them to revise date or negotiate for more time
- ▶ Can be more than one type overlapping- operationally.
- ▶ Key - need cooperation from all stakeholders. Scope determines who we convene for the audit.
- ▶ In our case it's usually SPA, AFS, AFS Payroll, UEC HR, Project Director and Internal Auditor.
- ▶ Google division/entity conducting audit - see what going on in their agency - who they are.
- ▶ If it is system wide, reach out to your counterparts at other CSU's to find out their experiences and what's been judged to be in compliance. Enables you to get a pulse of what the auditor is focusing on.

Audit Preparation

It is manageable and you will get through it

- ▶ **Identify a point of contact work to with auditor and stakeholders during all phases of the audit:**
 - To handle inquiries to and from agency.
 - Redirects requests to the appropriate area or person.
 - Coordinates the submission of documents.
- ▶ **Schedule meetings with all stakeholders to discuss agency requests:**
 - To determine which areas are responsible for compiling documents.
 - Document requests can consist of policies, procedures, general ledgers, or other documents.
 - Determine format to submit and where to submit - keep in one location/file so they don't get misplaced.
 - Provide deadlines for submission of documents.
- ▶ **Cooperate and give them only what they request:**
 - Ask for clarification if you don't understand the request.
 - Some requests or questions will appear to be duplicates - just formatted differently.
 - Make sure documents are legible.
 - Review all documents prior to submission.
 - Submit documents prior to or by the deadline.

The Audit Process

It is manageable and you will get through it

Auditor can conduct their audit through review of various documents only or through site visits in which we have documents ready for them to review.

AUDIT - REVIEW OF DOCUMENTS ONLY:

- Once submitted to them they may follow up with additional questions or requests for more documentation.
- Internal point of contact needs to keep stakeholders informed of progress and include them in on any scheduled conference calls.
- May schedule conference call to discuss their observations/findings.
- You are always allowed to provide a response or rebuttal to observations/findings.
- If satisfied with your submission they may just send notification that their review contained no concerns.
- If not satisfied they can schedule a site visit and expand scope of their audit.

The Audit Process

It is manageable and you will get through it

AUDIT - ON SITE:

- ▶ Auditors typically schedule opening conference to discuss scope and objectives, timing, and report format.
- ▶ SPA provides requested documents in a binder organized in the same manner as requested. We keep an identical copy.
- ▶ Conduct testing on the samples of documentation.
- ▶ For example; procedures indicate you will get quotes on purchases - documentation needs to support that.
- ▶ They may interview staff and may request additional documentation.
- ▶ They will discuss preliminary observations - we can dispute observations - this is our opportunity to provide explanations.
- ▶ In some instances they provide general guidance, suggestions, or unofficial recommendations - clarification from us can resolve any issues they may have.
- ▶ As a result some may never make it on their report.
- ▶ They will schedule exit conference to discuss findings and provide us with draft audit report.
- ▶ Will include their observations and recommendations -Again we can dispute and provide suggested wording to findings.
- ▶ We must respond to findings and provide corrective actions we will undertake.
- ▶ Final report will be routed to the auditor's management for approval of final audit report.
- ▶ Agency will follow up to determine if corrective action has been fulfilled and completed in the agreed upon timeframe. In some cases forms or procedures will need to be updated and/or training of staff is needed in order to resolve finding.
- ▶ If they return in the future they will always look at prior findings as a starting point.
- ▶ Single Audit always on site and handled in a similar manner but also involves UEC Audit Committee and presented to UEC Board.

The Audit Process

Office of Inspector General (OIG)

- ▶ Award from DOD was selected - Started in July 2011 and ended in February 2015 - \$521k.
- ▶ In late March 2016 OIG sent an email requesting documentation to “determine whether costs claimed were allowable, allocable, and reasonable under the terms of the award and in accordance to Federal regulations.”
- ▶ Final invoice with reconciliation to GL - detailed GL-list of employees & titles, and payroll ledgers .
- ▶ Had about 15 calendar days to submit - due by April 13, 2016.
- ▶ Then received notice that they will be conducting a site visit for about 2-3 days starting June 26, 2016
- ▶ Requested documents going back to start date: that included copy of award - policies & procedures - payroll/personnel and expense documents - audit reports.
- ▶ Their greatest focus was on personnel - mapped a person through the entire process - from hiring to payment issuance.
- ▶ Even after auditor departure they still contacted us through September 2016 with questions to obtain further clarification.
- ▶ The result was they had no reportable concerns.

Key Points

It is manageable and you will get through it

- ▶ Key - need cooperation from all stakeholders.
- ▶ Be polite and cooperate with auditors and be firm.
- ▶ Don't drag your feet - don't hide from them nor be unresponsive to their requests.
- ▶ If it appears you are trying to hide something the auditor may start looking for it.
- ▶ Be specific, ask questions and don't be afraid to disagree with them.
- ▶ Keep conversations short and concise. However brief conversations allow you to find out their level of experience.
- ▶ Review all documents before handing them over to auditor - always keep a copy. Submit in an organized manner to help facilitate their review.
- ▶ If you see potential problems with documents be ready to have a response. Have them cite the specific regulations that relate to findings/observations so you can look them up yourself.
- ▶ If you're wrong - you're wrong - consider this a learning process and no need to be defensive.
- ▶ Make sure staff has the same answer for how and why things are done.
- ▶ Better for everyone to have the wrong answer than everyone having different answers.
- ▶ "Because we've always done it that way" is never the right answer.
- ▶ Keep staff updated on how audit is progressing.
- ▶ At conclusion, take what you have learned and use it to train staff and to update procedures/processes.
- ▶ Depending on agency auditing they may make results public. OIG has a listserve that reports findings.

Audits are manageable and you will get through it.

QUESTIONS??

