Role of the Auditor

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Agenda

- Definition of audit: internal versus external
- Internal audit mission and typical audit topics
- Internal audit advisory services
- External audit protocols
  - Audit types and process followed
  - Communicating with auditors
  - Rights of auditors and those audited
- Internal controls
- Difficult reviews
- Being responsive
- Keeping issues in perspective
Definition of Audit

• A formal process where activities and records are examined and compared to predetermined audit criteria such as:
  
  – Federal regulatory requirements
  – University of California policies and procedures
  – Management goals and objectives

#1

Internal Audits Are Friendlier Than External Audits.....
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 the effectiveness of risk management, control and governance processes.

University of California Internal Audit Mission Statement

The mission of internal audit is to assist The Board of Regents and University management in the discharge of their oversight, management, and operating responsibilities through independent audits and consultations designed to evaluate and promote the system of internal controls, including effective and efficient operations.
Internal Audit Services

- Audits (evaluate)
- Advisory services (promote)
- Investigations

Internal Audit Activity in 2006-07

- 600 reports from audits, investigations, and advisory service projects
- 1,800 management actions for improving internal controls
- 27,000 hours devoted to investigating allegations of improper governmental activities
- 30,000 hours providing advisory services
How Are Areas Selected for Internal Audit?

- Risk Assessment and Planning Process
- Campus Management Requests
- Projects Requested by the Regents and/or Office of the President

Types of Internal Audits

- Financial
- Compliance
- Operational
Dept Internal Audit - typical scope

- Transactional Processes
  - payroll/personnel/purchasing/equipment management/travel/contracts and grants/other
- Programmatic Issues
- Information Systems
  - systems/platforms/DSA roles/security and access/other
  - business methodologies/research and healthcare practices/EH&S/affiliations/other
- Compliance Concerns

UC Systemwide Audits 2008-09

- Executive Compensation Policy
- Executive Compensation Reporting
- Research Compliance
- Compliance (Subject TBD)
- Support Groups
Internal Audit Advisory Services

• Internal controls training
• Systems development/re-engineering projects
• Policy interpretation and guidance
• Consultations/special request reviews
• External Audit Assistance

Benefits of Internal Audit Services

• Practical, business-oriented advice
• Local knowledge of policies, procedures, culture and environment
• Conduit to other resources
• Understand your resource limitations
Types of External Audits - General

- Generic: operational, investigative, financial, information systems, health care, compliance, construction
- GAO: financial, performance
- Who performs audits: federal sponsors; state sponsors; external auditors; private sponsors

#2
Ask Lots of Advice, But Listen Selectively
Do not say anything without your attorney present.

Honey, be nice - they’re just doing their job.

Remember, if you work for a large corporation you are expendable.

#3 Understand the External Audit Process
The University of California

Offices of Inspector General -
Categories of Work Performed

• Audits
• Inspections
• Investigations

Federal Contract Audit Types

• Claimed Cost
• Pre-award Audit
• Indirect Cost Audit
• General Control and Compliance Audit (A-133)
The Audit Process

• Formal Notice
• Initial Discussion
• Audit Plan
• Opening Conference
• Field Work
• Closing Conference
• Final Report
• Interim Findings or Draft Report
• Action Plan
• Follow-up Audit

The notification process generally identifies the purpose and schedule of the audit or survey, and may also discuss specific objectives. These discussions often help the audit team to define the exact scope of their audit. Some agencies call this phase a pre-survey or a survey. Surveys may also follow the more formal audit process, including an opening conference.
The Audit Process

• **Audit Plan**
  • A written audit plan is prepared by the auditing agency which identifies:
    • the audit scope
    • objectives and criteria
    • procedures
    • resources
    • schedule, and
    • reporting requirements.

• **Audit Criteria**
  • A-21
  • A-110
  • A-133
  • FAR
  • FDP Terms and Conditions
  • Sponsoring Agency resources
The Audit Process

• Opening Conference
  • An opening conference is conducted between the audit team and the audited entity to discuss:
    • the overall scope of the audit
    • specific audit objectives
    • field work requirements (i.e., data collection).

• Field Work - General process
  • Detailed information is collected by the audit team during their field work, and findings are recorded in the audit team’s working papers.
  • Interviews of audited entity representatives and review of files and/or documentation are normal components of audit field work.
  • Testing of transactions may also be performed.
The Audit Process

- **Field Work - Claimed Cost Audit**
  - Terms and conditions of award were met.
  - Costs billed to project or fund were allowable, allocable, and reasonable.
  - Cost Accounting Standard 502 (consistency in allocating costs incurred for the same purpose) was met.
  - Indirect cost rates used were appropriate & properly applied.
  - Formal cost sharing requirements were met.
  - Cost transfers were processed timely and costs allocated to the project or fund were appropriate.

- **Field Work - Pre-award Audit**
  - Salary rates for the proposed staff were current and accurate.
  - Staff benefit and indirect cost rates used were appropriate and properly applied.
  - Proposed unnamed staff rates were supportable.
  - Non-salary costs such as travel, equipment, and supplies were justified and reasonable.
  - Subcontractor proposals were evaluated for reasonableness in terms of price and/or cost.
  - Escalation rates were appropriate and properly applied.
The Audit Process

• **Interim Findings or Draft Report**
  • Interim findings or a draft report may be prepared by the audit team and reviewed with audited entity representatives. This exchange:
    • allows the audited entity to verify the correctness of the audit findings, and
    • provides an opportunity for the audited entity to address any perceived weaknesses identified by the audit team prior to release of the final report.

• **Closing Conference**
  A closing conference is normally conducted with the audit team and the audited entity to review audit findings and recommendations.
The Audit Process

• **Final Audit Report**
  
  A final audit report is almost always issued by the auditing agency.

• **Action Plan**
  
  An audit response, usually in the form of an action plan, may be requested or required by the auditing agency to identify corrective actions being taken in response to the audit.

• **Follow-up Audit**
  
  A follow-up audit may be conducted at a later date by the auditing agency to assure follow-through by the audit entity on audit recommendations.

  Open action items which have not been completed are usually reported on in future audits, appraisals and reviews until the matter is sufficiently resolved.
#4 Understand the Auditor

Myers Briggs Profile: I S T J

**Introversion** (vs. extroversion). Directed inward toward concepts and ideas / reserved and questioning.

**Sensing** (vs. intuition). Practical / relies on experience and actual data / pays attention to details / makes few factual errors.

**Thinking** (vs. feeling). Decisions based on logic / focus on truth and principles / brief, businesslike, impersonal, fair.

**Judgment** (vs. perception). Planful / decisive / self-regimented / purposeful / exacting / makes decisions quickly / focused on completing tasks.
To influence or explain issues to a typical auditor: *(S + J)*

**S**
- Be factual.
- Explain how risk will be reduced.
- Be prepared: work out details in advance.
- Show why your idea makes sense.

**J**
- Be logical and organized.
- Be methodical - list costs and benefits.
- Emphasize principles involved.

#5

Be Polite But Don’t Get Pushed Around
Rights of Auditors

- To review and evaluate any topics within the scope defined in the auditor's announced plan.
- To have reasonable access to any records which pertain to their topics of review.
- To be able to conduct their work in a constructive and cooperative environment during normal working hours.

Rights of Auditors (continued)

- To gain factual answers to their questions.
- To ask questions of any employee.
- To be given data in the best format that is available.
- To be provided workspace facilities and equipment appropriate to their assignment.
Rights of Those Audited

- To perform their assigned duties
- without major disruption.
- To maintain custody, security control and integrity of their file systems while permitting authorized access.
- To be able to conduct their work in a constructive and cooperative environment during normal working hours.

Rights of Those Audited (continued)

- To provide known factual answers to the questions posed by the auditor.
- To refrain from speculation, hearsay, or opinion, and from decisions beyond their level of responsibility.
Rights of Those Audited (continued)

- To continue to exercise such supervisory functions as normally performed, and to discharge regular responsibilities.
- To allow the auditors to do their own work, with no demand to generate special reports, summaries or compilations.

#6
Maintain an Awareness of Effective Internal Controls
Factors Stressing Existing Controls

- Rapid Change in External Environment
- Reduced Resources
- Changing Internal Environments:
  - downsizing
  - process reengineering
  - empowerment
  - technology

Internal Control

Internal control means a process, effected by an entity’s management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Source: Circular No. A-133
Business Officer Institute

Internal Control over Federal programs

• Process designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs:
  • Transactions are properly recorded and accounted for to:
    • Permit the preparation of reliable financial statements and Federal reports;
    • Maintain accountability over assets; and
    • Demonstrate compliance with laws, regulations, and other compliance requirements.

Source: Circular No. A-133

Business Officer Institute

Internal Control over Federal programs - continued:

• Transactions are executed in compliance with:
  • Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
  • Any other laws and regulations that are identified in the compliance supplement.

• Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Source: Circular No. A-133
Ask Yourself

? What deviations from acceptable business practices are possible?
? What are the weakest links in my department’s internal controls?
? How can someone get access to sensitive or valuable information or equipment?
? What accounting documents are the easiest to access and forge?

Ask Yourself

? What potential losses (both financial and non-financial) could the department experience?
? What is the probability of the loss occurring?
? Who (internally and externally) would be in a position to cause the loss?
#7
Don’t Get Sideways With the Auditors

10 Strategies to Avoid Government Fraud Investigation

- Pay attention to whistleblowers.
- Pay attention to nongovernment payors/funding as well as the government ones.
- Avoid an attitude of “out of sight out of mind” for off-site facilities.
- Never, ever use the “everybody’s doing it” defense.

Source: American Bar Association, Health Care Fraud & Compliance Seminar
10 Strategies to Avoid Government Fraud Investigation

- Pay attention to advice from Medicare contractors by reading their bulletins, etc.
- Avoid creating a system to detect and correct without making sure the solution works.
- Establish systems to promote compliance.
- Avoid hiring problematic consultants - you are still responsible for them.

Source: American Bar Association, Health Care Fraud & Compliance Seminar
Keep Abreast of Current Issues

Current Issues - Sponsored Project
Internal Control Objectives

• Terms and conditions of the awarding agency are met. Approvals for exceptions are documented.
• Consistent costing policies are followed for all types of funding.
• Expenditures charged either indirectly or directly are consistently treated in agreement with your Disclosure Statement.
• Effort Reporting
#9

Be Responsive, not Defensive

A Few Examples of Being Responsive

- Providing supplemental documentation for unallowable or questioned costs
- Implementing improved internal controls as soon as significant issues surface
- Self-reporting
#10
Remember the Denominator

#11
Involve Counsel and Public Relations Specialists if Needed
If everything else goes wrong, remember to keep your life in perspective.

Who are the Audit Directors?

Berkeley – Wanda Lynn Riley
Davis - Rick Catalano
San Francisco – Abby Zubov
Santa Barbara – Peter Cataldo
Santa Cruz – Geraldine Gail
Berkeley Lab – Terri Hamilton
Irvine – Larry Collum
Los Angeles – Ed Pierce
Riverside – Mike Jenson
San Diego – Stephanie Burke
UCOP – Helen Valness