AGA New Mexico Chapter
Albuquerque Chapter

2019 Professional Development
Training

Presenter:

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- ❖ Understanding the Performance Audit Process and Responding to Findings

- ❖ April 5, 2019

Understanding the Performance Audit Process and Responding to Findings

❖ Objectives:

➤ Background of the City of Albuquerque Office of Internal Audit (OIA)

➤ Discuss OIA's Performance Audit Processes

➤ Things to Consider When Responding to Findings

Understanding the Performance Audit Process and Responding to Findings

Office of Internal Audit

Performance Audit Process

OIA's Mission Statement

To provide independent audits that promote transparency, accountability, efficiency, and effectiveness of City government for the citizens of Albuquerque.

Performance Audit Process

Overview of OIA

- ❖ Has operated in its current form since August 29, 1986.

- ❖ Operates under the Accountability in Government Ordinance (Enabling Legislation).

  - ➢ § 2-10-4 (A) The Office of Internal Audit is created as an independent office of City government. The Office of Internal Audit is not part of the City's executive branch or the City Council. The City Auditor shall report to the Committee.

  - ➢ The Accountability Government Oversight (AGO) Committee consists of five members from the community at large.

  - ➢ As vacancies on the AGO Committee occur, the City Council and Mayor will alternatively appoint new members.

- ❖ OIA website **http://www.cabq.gov/audit**.

Performance Audit Process

Generally Accepted Government Auditing Standards (GAGAS)

- ❖ OIA performs audits in accordance with GAGAS (Yellow Book).

- ❖ 2018 Revision goes into effect for performance audits beginning on or after July 1, 2019.

- ❖ This presentation will reference and focus on the 2011 Revision.

- ❖ Per GAGAS 3.82 (2011 Revision) and §2-10-8 (B) of the Accountability in Government Ordinance, OIA must:

  - ➢ Establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and

  - ➢ Have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years. (Who audits the auditors?)

Performance Audit Process

❖ OIA has passed it's four previous peer reviews, and has developed a performance audit process to ensure compliance with GAGAS.

❖ The following slides are an over view of OIA's audit process.

Performance Audit Process

❖ Annual Audit Plan

  ➢ Identify Risk Universe

  ➢ Seek Input from Various Sources

  ➢ Create List of Potential Audits

  ➢ Perform Risk Analysis, Discuss and Score Using a Matrix

  ➢ Draft Audit Plan

  ➢ Council Approval of Audit plan

  ➢ Both City Council and the Administration can Request Special Audits

Performance Audit Process

- ❖ Annual Audit Plan is Approved
- ❖ Performance Audits are Assigned
- ❖ Planning Begins

Performance Audit Process

❖ Planning
- ➢ Research, Develop an Understanding
- ➢ Self-Assessment Questionnaire
- ➢ Follow-up, Clarify, Request Information, Identify Criteria
- ➢ Planning Memo
- ➢ Risk Assessment
  - o Control Strengths
  - o Control Weaknesses

Performance Audit Process

❖ Planning (Continued)

➢ Control Strengths

○ Controls that are properly designed and implemented. (GAGAS 6.16)

○ Effective controls may enable the auditors to limit the extent and type of audit testing needed. (GAGAS 6.17)

Performance Audit Process

❖ Planning (Continued)

➢ Control Weaknesses (Deficiencies) (GAGAS 6.21)

➢ Exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct:

- o Impairments, of effectiveness or efficiency of operations;

- o Misstatements in financial or performance information; or

- o Noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis.

Performance Audit Process

❖ Control weaknesses may lead to findings so it is important to understand the control and reason for the control. For Example:

➢ Control - Where practical, the approval to purchase goods or services should be authorized by personnel other than the employee requesting the purchase; the approval to purchase should also be segregated from the receiving of goods and services.

o Reason for Control - By segregating the approval to purchase from the request to purchase and the receiving of assets or services purchased, the opportunity to make personal purchases from public funds (and for these transactions to remain undetected) is reduced.

Performance Audit Process

❖ Examples Continued:

➢ Control - Access to the module for creating new vendors should be segregated from employees who authorize purchases or approve claims for payment.

o Reason for Control - In a computerized purchasing environment, segregating the duties of creating new vendor accounts from the duties of authorizing purchases and approving claims for payment lessens the opportunity for establishing fictitious vendors and making payments to them.

Performance Audit Process

❖ Planning (Continued)

➢ Audit Program

➢ Brainstorming – Identify Potential Fraud

➢ Revisions

Performance Audit Process

❖ Entrance Meeting:
- ➢ Discuss Scope
- ➢ Objectives
- ➢ Criteria

Performance Audit Process

❖ Fieldwork:

- ➢ Observe

- ➢ Interview

- ➢ Sample Data

- ➢ Test Data

- ➢ Review and Conclude on Results

Performance Audit Process

- ❖ Communication – Bi-weekly feed back to auditee
    - ➤ **VERY IMPORTANT**
    - ➤ Status of the audit
    - ➤ Issues (Findings) identified
        - o Opportunity for Auditee to Provide Additional Information
        - o Might clear
    - ➤ Determine the Cause of the Issue If Not Already Identified
        - o Identifies the reason for the issue
        - o Serves as a basis for recommendations for corrective actions

Performance Audit Process

❖ Developing Findings and Reporting

  ➤ Five Elements – Condition, Cause, Criteria, Effect, and Recommendation

  ➤ <u>Must</u> Identify the Cause

  ➤ The Cause is the Reason for the Issue (Condition)

  ➤ Cause – Common Factors (GAGAS 6.76)

    ○ Poorly designed policies, procedures, or criteria

    ○ Inconsistent, Incomplete, or Incorrect Implementation

    ○ Factors Beyond Program Managements' Control

Responding to Findings

❖ Examples of Findings

➢ Non-compliance with Policies and Procedures

➢ Lack of Written Procedures

➢ Inefficient and/or Ineffective Processes or Procedures

➢ Insufficient or Lack of Supporting Documentation

Responding to Findings

❖ Audit Report

➢ Exit Meeting – Discussion Draft

➢ Preliminary Draft

➢ Receive Responses from Auditee

Responding to Findings

❖ Reporting Views of Responsible Officials (GAGAS 7.32)

➢ *Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions.*

Responding to Findings

❖ Things to Consider When Responding to Findings:

  ➢ How will the Finding be Resolved?

  ➢ How will the Recommendation be Implemented?

  ➢ What is the Time Frame in which the Recommendation will be Implemented?

    o Should be Specific and Realistic

  ➢ Respond Directly to the Finding and the Recommendation

Responding to Findings

❖ Things to Consider When Responding Findings (continued)

➢ Provide specific actions that management commits to take to correct the finding and implement the recommendation.

➢ Make your response clear and concise.

➢ Exclude information that is not pertinent to the recommendation.

➢ Auditee has 14 days to respond to OIA:

o Ten days for auditee to generate the response

o Four days for the Chief Administrative Officer to review the response and forward to OIA

Questions?