

Restricted Funds Auditing
 Presented by
 UA Statewide Office of Internal Audit

Hosted by UAF Office of Grants & Contracts
 Administration
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Agenda

- 1) About Internal Audit
- 2) Restricted Funds Auditing
- 3) Typical Audit Process
- 4) Common Audit Findings
- 5) Best Practices for Internal Controls

About Internal Audit

- UA system office located in Fairbanks
- Director ,three auditors and one intern
 - 2 associate auditors
 - 1 assistant auditor that is working towards CISA certification (certified information systems auditor)
 - 1 intern from the School of Management
- IA director reports administratively to the chief financial officer and functionally to the Board of Regents Audit Committee
- Location of department at the system level and the dual reporting lines = independent audit function

Board of Regents Policy P05.03.012

- Internal auditing is an independent appraisal activity established within the university to examine and evaluate its activities to meet the needs of the board and executive management. **Internal audits may include financial, performance, operational and compliance audits.** The mission of the internal audit department is to assist the board and management in the effective discharge of their fiduciary and administrative responsibilities by providing analysis, appraisals, counsel, information and recommendations concerning activities reviewed and by promoting effective controls for the recording and reporting of operational activities and for the custody and safeguarding of assets.

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Types of Audits

- Financial
 - Revenues, cash receipts, procurement card
- Performance
 - Distance education delivery
- Operational
 - Review of a department's major business functions
- Compliance
 - Effort reporting
 - FERPA
 - PCI DSS

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Standards for Internal Audit

- Government Accountability Office Comptroller General of the United States
 - Generally Accepted Government Audit Standards
- Institute of Internal Auditors
 - Standards for the Professional Practice of Internal Auditing
 - Code of Ethics
- ISACA
 - Guidelines for the performance of information technology audits
 - Code of Ethics

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Restricted Funds Auditing

- Common areas of review, but not all-inclusive list:
 - Effort reporting
 - Charging of direct and indirect costs (utilization of CAS exemption forms for major programs)
 - Travel
 - Property
 - Subawards and subrecipient monitoring
 - Representational/nonrepresentational spending
 - Journal vouchers
 - Procurement card
 - Spending analysis (spending at end of award)

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Audit Focus

- Internal reviews of restricted funds have been focused on:
 1. Internal controls, including but not limited to,
 1. Approvals
 2. Segregation of duties
 3. Support documentation
 4. Review/monitoring of activity
 2. Compliance with award, budget justification, and amendments
 3. Allowability, allocability, reasonableness and consistency

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Authoritative Guidance

- OMB Circulars (A-21, A-110, A-133, A-87)
- OMB Memorandums
- Federal Acquisition Regulations (FAR)
- State Statutes (ex: for RSAs)
- Board of Regents Policy
- University Regulation
- Statewide Accounting and Administrative Manual
- MAU policy manuals
- Grants and Contracts Information Manuals
- Department-specific procedures

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Typical Audit Process – Slide 1

Audits are conducted according to the annual audit plan that was approved by the BOR Audit Committee

Goals of our audit process:

- ❖ No surprises
- ❖ On-going communication

Exception to the typical audit process: When the engagement is an investigation

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Typical Audit Process – Slide 2

- 1) Notification to management of the unit (s) to be audited
 - This is considered to be the informal notification
 - Discussion is held of tentative audit scope, management concerns, timing of fieldwork, points of contact, assignment of audit staff, and overview of the audit process
- 2) Entrance letter to the chancellor, with a copy to the relevant department(s) involved in the audit
 - This is considered to be the formal notification and occurs only after the informal notification(s) have been made and a timeframe for fieldwork has been determined

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Typical Audit Process – Slide 3

- 3) Lead auditor sends a preliminary request for information to the stated point of contact
- 4) The unit audited will have a deadline for response to the preliminary request for information
 - Deadlines can be flexible if the auditor is made aware of circumstances faced by the unit being audited
 - The information provided in response is very helpful to the auditor

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Typical Audit Process – Slide 4

5) The auditor conducts preliminary fieldwork, such as:

- Reviewing the response to the preliminary request for information
- Continuing data analysis and selecting samples for the testwork (unless already done for the prelim request)
- Performing testwork steps, if possible, based on the response to the preliminary request
- Preparing for on-site fieldwork

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Typical Audit Process – Slide 5

6) On-site fieldwork

- Typically auditors are on-site for one work week
- The entrance meeting is scheduled for the morning or early afternoon of the first day
- An exit meeting is scheduled for the morning or early afternoon of the last day
- The auditor conducts internal control questionnaires (ICQs) with relevant staff for the different processes in the audit scope
- The auditor conducts testwork procedures for the sample(s) of transactions selected
- The auditor conducts questionnaires or surveys with staff involved with the award

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Typical Audit Process – Slide 6

When the auditor provides a sample for testwork, it is accompanied by a list of documentation that is requested for each item in the sample

- An example of an effort reporting testwork sample:
 - 25 payroll transactions that involve an award
- Likely requested documentation:
 - All timesheets for each individual/pay period selected in the sample
 - Job form that covers the specific job assignment for that pay period
 - Award budget justification that shows the individual is approved to have labor charged to the award
 - If labor appears to be admin/clerical in nature, a CAS Exemption form for the award

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Typical Audit Process – Slide 7

The exit meeting:

- ❖ Is used to present the findings noted during the fieldwork, and explain any areas of fieldwork that remain in progress. We provide a copy of our findings and recommendations document and review each item with the exit attendees.
- ❖ It is very important that we obtain agreement or disagreement to each finding and recommendation,
- ❖ And that recommendations are carefully reviewed for reasonableness by the department audited

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Typical Audit Process – Slide 8

The findings and recommendations are presented in a five part format:

1. Condition: A description of the finding
2. Criterion: The authoritative guidance used to determine that a finding exists
3. Effect: The risk involved with the finding
4. Cause: The reason the condition (finding) exists
5. Recommendation: Suggested solution for the finding
6. Response: Agreement or disagreement; changes to the suggested recommendation

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Typical Audit Process – Slide 9

- Reporting:
- The draft audit report is prepared by the auditor and sent to the unit audited for their review for accuracy, clarity, and reasonableness. There are ten business days for this review period.
- The Preliminary audit report is the formalization of the draft audit report after any review comments have been resolved or incorporated into the report. This report is distributed from the internal audit director, through the chief financial officer, to the chancellor.
- There is a five week period for submission of the formal response, which includes a plan of action for each finding and the planned implementation date(s).

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Typical Audit Process – Slide 10

- The formal response is received by the internal audit director and chief financial officer.
- Upon acceptance by the chief financial officer, the response is added to the Preliminary audit report and, collectively, these become the Final audit report.
- The Final audit report is distributed to the chair of the BOR Audit Committee, and copied to the chancellor, vice chancellor, and department(s) audited.
- The Final audit reports are discussed at the next regularly scheduled BOR Audit Committee meeting. These are usually discussed in open session and anyone is welcome to attend.

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Common Audit Findings (internal and external) – Slide 1

- General (these occur throughout different types of processes):
 - Lack of departmental written procedures.
 - Lack of approval or proper approvals (knowledge and/or level).
 - Undocumented dated approvals.
 - Inadequate documented justifications.
 - Lack of or inadequate back up documentation.
 - Lack of adequate training for staff involved with grant financial management.

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Common Audit Findings (internal and external) – Slide 2

- CAS Exemption Form for Major Programs:
 - CAS exemption form not on file, yet proposal and budget indicates administrative/clerical expenses.
 - Major Program designation in Banner does not match information in the proposal, BRFs or CAS exemption form.
 - The filed CAS exemption form was not signed by the controller or the MAU CFO.

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Common Audit Findings (internal and external) – Slide 3

- Effort Reporting:
 - Employees charging effort to an award, however the employee or 'job' was not identifiable to the award.
 - Lack of appointment letters or employment contracts.
 - Lack of verification of actual effort by person with first-hand knowledge.
 - Cost exceeding summer salary limitations.
- OIG reports of effort reporting at other universities:
 - http://www.nsf.gov/oig/10_1_008_Delaware.pdf
Pages 1, 3, 5
 - http://www.nsf.gov/oig/10_1_001_suny.pdf
Page 5

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Common Audit Findings (internal and external) – Slide 4

- Subawards
 - Purchased Order was signature dated after the commencement of work by the subrecipient.
 - A copy of the proposal budget was submitted as an invoice for payment to the subrecipient.
 - Subaward agreement was not completed and submitted in a reasonable time period.

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Common Audit Findings (internal and external) – Slide 5

- Spending Analysis:
 - An increase in expenditure activity as the award was approaching the expiration date that did not reasonably or justifiably match the proposal narrative timeline.
- Property:
 - Regularly scheduled inventories are not performed.
 - 2 of 15 items sampled were not located in, or used by, the department as stated on their inventory and the award; nor was a change of custody documented.

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Common Audit Findings (internal and external) – Slide 6

- Unallowable Expenses:
 - 1 of 10 expenses sampled was an unallowable communication expense (monthly telephone service, telephone on a desk).
 - 1 of 10 expenses sampled was charged to the incorrect acct code 3991 (non-rep event with reimbursement to the employee after the fact).
 - 1 of 10 expenses sampled, foreign travel, not award approved and not back up documentation.
 - 1 of 10 expenses sampled was a travel cost not allowable or allocable within the award.

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Best Practices for Internal Controls – List of 10 Best Practices

1. Guard your signature and what it is being used for
2. Protect your passwords
3. Prevent and detect fraud
4. Document, Document, Document
5. Separation of duties
6. Use computer resources smartly
7. Policies and procedures
8. Use the tools and resources available
9. Protect cash and other assets
10. Be, or contribute to, the ‘tone at the top’

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Questions or Concerns?

Contact Information for today’s presenters from Internal Audit:

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