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Using Audit Results: Prior Findings and Leveraging Technology

2016 Federal Audit Executive Council Annual Conference

September 8, 2016

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Agenda

- What it means to “use” audit results
- Prior findings and recommendations
- Data analytics
- JEOPARDY!
- Questions



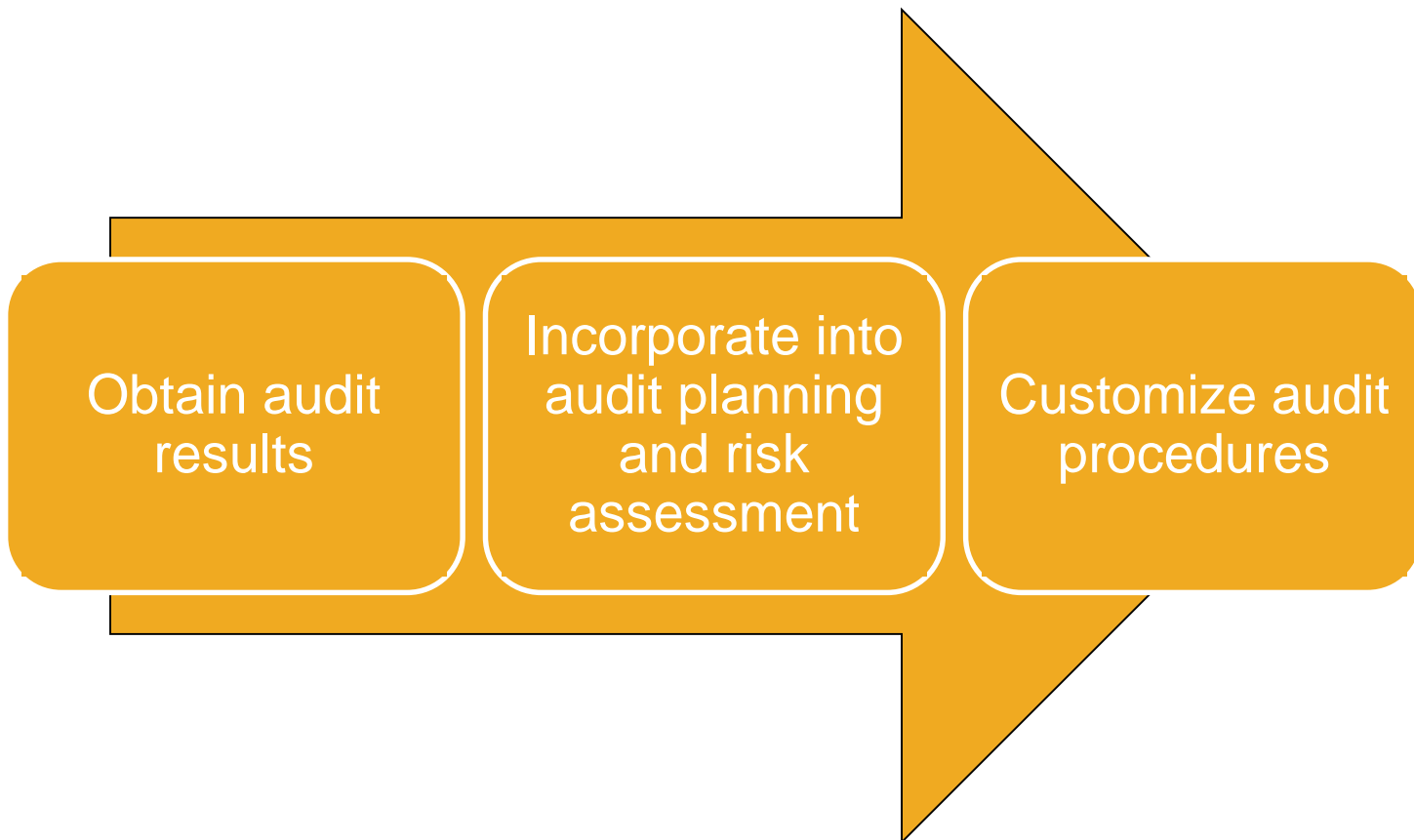
Using Audit Results

Using Audit Results

- What does it mean to “use audit results”?
 - The short answer is, “It all depends on who you are and what your role is.”
 - Users include:
 - Auditors;
 - Agreement and Contracting Officers (and their representatives);
 - Contract Specialists;
 - Implementation/operational staff; and
 - Those engaged in monitoring activities.

Using Audit Results (Continued)

- What does it mean for auditors and monitors?



Using Audit Results (Continued)

- We also use them to meet a core Yellow Book requirement.

- GAGAS Section 4.05

When performing a GAGAS audit, auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements or other financial data significant to the audit objectives.

Using Audit Results (Continued)

- Are we limited to audit results in terms of the GAGAS requirement?
 - No, there are other engagement types as well that could have findings or recommendations, including:
 - Limited financial reviews;
 - Agreed-upon procedures engagements;
 - Procurement and Financial/Accounting System Reviews; and
 - Monitoring reports.

Using Audit Results (Continued)

- Non-Auditors use the results as well. Examples of methods include:
 - Determining to whom funds will be awarded;
 - Developing procedures; and
 - Determining the extent and nature of monitoring needs.
- Sometimes, we have to provide some assistance so that others are not lost in “audit speak.”



Prior Findings and Recommendations

Prior Findings and Recommendations

- Let's take a look at some prior findings – findings that have been identified during numerous engagements.
- For each example, let's discuss how the auditor and/or implementer may use the results.

Prior Findings and Recommendations (Continued)

Condition	What does it mean for the auditor and/or implementer?
<p>\$4,361,481 associated with two subcontractors' activities was questioned due to lack of support for cost reasonableness and use of noncompetitive procurement procedures. Rationale included one organization being able to re-surface airport runways, facility demolition, costs being considered reasonable based on the program manager's experience and directive not to complete SSJs, and feedback from government staff.</p>	<ol style="list-style-type: none">1. Stratification of the procurement population to identify and analyze noncompetitive procurements.2. Focus on procurements approved or pushed by the program manager.3. Go deeper: evaluate the reasonableness of sole/single source procurement rationale and approvals.

Prior Findings and Recommendations (Continued)

Condition	What does it mean for the auditor and/or implementer?
<p>The University was advanced \$110,449 in Federal funds more than costs incurred under the cooperative agreement. In addition, various costs remained unliquidated after the award closeout period.</p>	<ol style="list-style-type: none"><li data-bbox="981 604 1812 725">1. Consider examining effectiveness of accounts payable procedures to ensure timely payment of vendors.<li data-bbox="981 775 1812 896">2. Identify opportunities to evaluate the total population of transactions and payments for closeout errors.<li data-bbox="981 946 1812 1068">3. Evaluate adequacy of cash management and closeout training.

Prior Findings and Recommendations (Continued)

Condition	What does it mean for the auditor and/or implementer?
<p>Of 70 equipment and property items tested, the following matters were noted:</p> <ol style="list-style-type: none">1. Receiving support was missing for 10 items;2. Disposition support was missing or unreliable for 18 items; and3. Financial records and inventories were not reconciled during the award period, remain unreconciled, and are missing key data.	<ol style="list-style-type: none">1. Modify standard audit programs (contract had been audited multiple times with no findings on equipment and property). Go deeper.2. Consider full data analysis on the property purchases and inventories for anomalies (e.g., missing data, acquisition costs, etc.).



Data Analytics

Data Analytics

- As technology and time have advanced, so too have the risks to which the Government is exposed.
 - This includes techniques used by fraudsters;
 - Ability and methods to cover non-compliance; and
 - Expanded international activities creating detection risk due to decentralization and award/execution complexity.
- As auditors, we must grow and adapt as well.
 - This includes leveraging technology.

Data Analytics (Continued)

- “Big data” has been a buzz term for many years now, but it is directly applicable to the work we do.
- Consider:
 - The number of expenditure transactions in the population for a single award or CFDA program.
 - Underlying questions of efficiency, coverage, and effectiveness in responding to risks.
 - Opportunities to assess the population versus relying on projections.

Data Analytics (Continued)

There are a number of computer assisted audit techniques/data mining tools available, including:

- Microsoft Excel
- ACL
- Monarch

Data Analytics (Continued)

- Data Mining Functions

- Footing
- Reporting
- Duplicates
- Sorting
- Exporting
- Gaps
- Summarizing
- Graphing
- Aging
- Selecting
- Statistics
- Sampling
- Calculating
- Stratifying
- Matching
- Batching

Data Analytics (Continued)

- ACL permits analysis of populations, including testing for duplicate payments, sequencing errors, and other matters that may be indicative of improper payments and other issues.

Duplicates Based on Same Vendor # & Invoice #				
VEND_NO	INV_NO	CHECK_NO	CHECK_DT	AMT_PAID
23476	S3722198	73249	2/12/2016	2,145.34
23476	S3722198	73437	3/14/2016	2,216.87
76548	S9890002	72645	1/15/2016	10,378.30
76548	S9890002	75444	6/28/2016	9,822.13
58732	S7773329	73894	4/1/2016	7,800.50
58732	S7773329	72154	1/11/2016	7,790.44
97730	S4262711	72047	1/5/2016	1,626.88
97730	S4262711	74271	5/26/2016	1,626.88

Data Analytics (Continued)

- ACL also allows for multiple large data sets to be compared and analyzed. Consider:

Door #1

Door #3 Door #2

[illegible]

Data Analytics (Continued)

- In small groups, let's identify some procedures that we have previously performed manually that could be done using data analytics.



Audit Jeopardy!!!

Audit Jeopardy!

Audit Methodology	Billing Fraud	Procurement Fraud
<u>1</u>	<u>1</u>	<u>1</u>
<u>2</u>	<u>2</u>	<u>2</u>
<u>3</u>	<u>3</u>	<u>3</u>

Audit Methodology 1

- The Yellow Book states that auditors should assess whether the audited entity has done this with regard to prior findings and recommendations.



Audit Methodology 2

- As a component of audit planning and risk assessment, the auditor conducts various assessments of the population using tools and techniques such as _____.



Audit Methodology 3

- Review of prior findings may indicate instances where and risk of senior managers push, force, or authorize activities that are in conflict with established policies. Audit procedures are designed to detect such actions, which are referred to as what?



Billing Fraud 1

- Agreement officers assign technical reviewers on-staff to review recipients' reimbursement requests prior to payment.



Billing Fraud 2

- A recipient requests payment on the cash basis, but maintains its books on the accrual basis. The recipient requires a reconciliation of the two to be completed prior to requesting payment.



Billing Fraud 3

- Contract funds are appropriated by Contract Line Item Number (CLIN). The contractor does not have a process or the ability to track and report costs incurred by CLIN.



Procurement Fraud 1

- A recipient implementing an international project requires copies of vendors' business licenses to be kept on-file by the field offices.



Procurement Fraud 2

- A recipient requires a three-way match prior to authorizing payments to a vendor.



Procurement Fraud 3

- This legislation requires certified cost and pricing data to be submitted to the contracting officer/procurement official for purchases of non-commercial items made using non-competitive procedures and amount to greater than \$750,000.
- * Bonus points for identifying the risk(s) that is intended to be mitigated.





Questions??

Thank you.

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