

Surviving An Audit

Change Management and Advisory services

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Chat Response:

What comes to mind for you when you hear the word “AUDIT”?

Questions you may have....

- Who audits UMB?
- What should we do?
- When will they come?
- Where do we go for help?
- Why are we audited?
- How long do they stay?



Poll Question #1

Which best describes your audit related experience?

- a. I have worked with auditors directly.
- b. I have assisted in providing audit information but have not directly worked with auditors.
- c. I have been aware that auditors are auditing my department but I was not involved.
- d. I was aware that auditors are on campus but my department was not contacted.
- e. I have never been aware of audits.

Objectives

1. Types of auditors/audits you can expect
2. Audit process and what it means to you
3. Areas reviewed under audit
4. How to interact with and respond to auditors
5. Proactive measures and known risk areas

Audit Agencies

&

The Audits They Perform



OBJECTIVE 1

Office of Legislative Audits (OLA)

- ✓ Mandated by law to conduct Fiscal Compliance Audits every 3 years
- ✓ Also conducts Performance Audits, IT Audits and Fraud Investigations
- ✓ Evaluate compliance with applicable laws, regulations and policies through examining financial transactions, records and internal controls
- ✓ OLA audits can last 3-12 months, varies by type of audit, expected at UMB soon

USM – Office of Internal Audit

- ✓ Conduct various types of audits of all USM institutions, including
 - financial, operational, compliance, investigative, information systems, and follow-up reviews
- ✓ Ensure Institutions are operating effectively, efficiently, and in accordance with applicable policies, standards, regulations, and laws
- ✓ USM audits can last 1-6 months, varies by type of audit, routinely at UMB

Federal Government

- ✓ Federal sponsored project funding oversight – the Single Audit or 2-CFR-200 Uniform Guidance - Statewide
- ✓ Conducted annually for entities that spend \$750,000 or more of federal funds, usually by an independent accounting firm, e.g. CliftonLarsonAllen (CLA)
- ✓ Provides assurance that sponsored funds are used for their intended purposes and that risks of fraud, waste, and abuse are minimized
- ✓ Audit time varies, although done annually, UMB is not always selected

Other Agencies and Private Firms

- ✓ State Agencies, like MDH, can perform audits/reviews over any grant funding provided by the agency (sub recipient/pass through grant funding)
- ✓ Similar to federal audits the purpose is normally to monitor management and use of sponsored funds
- ✓ Private firms perform audits, such as the Statewide Financial Statement Audit. Private corporations also perform audits to monitor any funding provided by the company, such as desk audits, site visits and program audits
- ✓ Audit time varies, F/S audits done annually while others are not routine

The Audit Process & What It Means To You

OBJECTIVE 2

The Audit Starts!



- ✓ UMB Is Notified – President’s office
- ✓ Engagement Letter – details type of audit, objectives, expectations, timeframe, etc.
- ✓ Phone Call – for Fiscal Compliance audits, informing us when they plan to start
- ✓ Entrance Meeting – between Auditors and key Management to discuss audit objectives, scope, timeframe, etc.
- ✓ OLA is expected to come soon (June 2021)
- ✓ Inform MAS if you receive notification of an audit

Planning The Audit

- ✓ Gather information/data about the university, e.g., financials, policies, values, mission, etc.
- ✓ Gain understanding of important functions, operations, business processes, etc.
- ✓ Determine what areas of operations the audit will focus on usually based on significance, risk and sensitivity
- ✓ Primarily interact with upper level management during this phase

Conducting Fieldwork

- ✓ Interview key personnel to learn about day to day operations, business processes and internal controls
- ✓ Request and review documentation to support the interviewee's assertions about operations, processes and internal controls
- ✓ Perform tests of controls and transactions to ensure processes are in compliance with State, USM and UMB requirements (laws/regs, policies and procedures)
- ✓ During this phase they will request larger quantities of documentation and have numerous questions



Conducting Fieldwork

- ✓ Follow up on prior audit findings and recommendations
- ✓ Corrective actions should have already been implemented
- ✓ Determine the adequacy of controls and if transactions have been processed appropriately and in compliance with policies
- ✓ Audit findings (if any) are established

Communication Of Results

- ✓ Throughout the audit, we should be aware of results, based on questions asked during fieldwork and documentation provided/reviewed
 - Important to contact MAS if auditor indicates they are concluding audit work or a potential finding exists – best to know findings before they reach the draft report especially if something is not accurate
- ✓ Results are initially formally communicated through Discussion Notes and/or Draft Audit Report which seeks University's agreement
- ✓ MAS works with the departments to develop an appropriate audit response to the audit finding and recommendation and to seek clarification from auditors if necessary

Communication Of Results

- ✓ Exit meeting is held to discuss findings and recommendations (MAS coordinates meeting)
- ✓ Final results are formally communicated through the Audit Report, which is distributed to the President, Board of Regents, and other University leadership. Legislative Audit Reports are also sent to the Legislature and made available to the public.



Areas Reviewed Under Audit

Typically audits are focused on areas with significant dollars (collections & spending), risk, and/or sensitive in nature

- ✓ Cash Collections/Accounts Receivables
- ✓ Procurements/Disbursements
 - includes travel, all types of contracts, all types of expenditures
- ✓ Sponsored Projects
- ✓ Working Fund
- ✓ Procurement Card
- ✓ Equipment/Inventory
- ✓ Payroll/HR
- ✓ Programmatic/Special Areas
 - Unique areas/programs such as...Medical Service Plan, UMMC Agreement, Clinical operations
- ✓ Information Systems (IT)
 - Usually audited separately by IT auditors

Poll Question #2

Do you work in an area on campus that auditors may consider significant, risky, or sensitive?

- a. YES and my area is audited frequently
- b. YES but my area is not audited often
- c. UNSURE if my area would be a focus
- d. NO, not to my knowledge



Any department, area or program can be audited, without warning!

- ✓ Always be prepared
- ✓ Don't assume because you haven't been audited yet, you won't be in the future

How Areas Are Audited

Audits are generally conducted using specific criteria that tells the auditor what should be done and what the requirements are, this criteria includes...

- ✓ Federal or State Laws and Regulations
- ✓ USM Policies
- ✓ UMB Policies and Procedures
- ✓ Departmental Policies and Procedures

Audits also consider internal controls, e.g., separation of duties

- ✓ One person should not have complete control over a process

How Areas Are Audited

- ✓ All areas have some form of criteria (policies/procedures) that should be adhered to
- ✓ All areas have some need for adequate controls/separation of duties
- ✓ Auditors review your current processes to determine if you are following criteria and if you have adequate internal controls in place
- ✓ This includes procedural review and test of transactions

Prior Audit Findings - Legislative Audit (OLA)

- ✓ OLA prior findings are followed up on during the next audit cycle
- ✓ Therefore, the **2 prior findings** will be followed up on during the upcoming audit which is expected soon
- ✓ If 4 or more OLA findings are repeated, UMB is subject to...
 - Withholding of funds by Legislature
 - Preparing status reports to OLA and the Legislature every 6 months until they are satisfied with the corrective actions
- ✓ OLA can come back sooner to verify corrective actions are implemented
- ✓ To read prior audit report, visit OLA Website: www.ola.state.md.us

Prior Audit Findings – USM Internal Audits

UMB's Prior School-Wide Internal Audit Findings

- ✓ Monitoring of faculty/staff licensing, service agreements and contracts
- ✓ Payroll – incentive and supplemental pay - accuracy of calculations and timeliness of approvals
- ✓ Working Funds – payments to study participants
- ✓ Cash Receipts – separation of duties, recordation, timeliness of deposit, independent verification
- ✓ Inventory – tracking of non-capital/sensitive, recording capital acquisitions and deletions

Prior Audit Findings – USM Internal Audits

UMB's Prior School-Wide Internal Audit Findings

- ✓ Procurement – compliance with Pcard requirements/restrictions, timeliness of invoice payments
- ✓ Travel – authorizations done prior to trips, expenses adequately documented, approved by appropriate supervisory personnel
- ✓ Contracts and Grants – monitoring and recordkeeping, charges applied timely and to correct grant, sub recipient payments
- ✓ Centers and Institutes – documented approval, defined evaluation cycle

Prior Audit Findings – USM Internal Audits

- ✓ USM prior findings are followed up usually around 1 year from the original audit
- ✓ If findings are not corrected, USM will return for a 2nd (and final) follow up
- ✓ If findings are still not corrected after the 2nd follow up, UMB has to respond to the Board of Regents with how items will be corrected and update them when corrections are made

Prior Audit Findings – General

- ✓ The number of audit findings and repeat findings is a factor in the President's performance evaluation
- ✓ It is in ALL of our best interest to minimize audit findings!
- ✓ To help minimize repeat findings, MAS performs follow up reviews of OLA and USM audit findings before auditors return

Why Audit Findings Are Important!

- ✓ Jeopardize University funding
- ✓ Draws negative attention/publicity to the University/Department
- ✓ Reduce the trust of sponsors (grantors) and the public (students/staff/stakeholders)
- ✓ Means the auditors will be back to follow up on corrective actions





Important!!!

Why Assessing Controls Is Important!

- ✓ Shows us where processes and controls are weak
- ✓ Where the potential for fraud and abuse exists
- ✓ If processes are inefficient or duplicative
- ✓ If compensating controls are present
- ✓ If we are not complying with certain laws, regs or policies

How To Interact With & Respond To Auditors

Auditors will contact key personnel to learn about day to day operations, business processes and internal controls

- ✓ Notify MAS immediately if/when contacted by auditor
- ✓ You may have little to no notice when they come to talk to you
- ✓ Remember, they are not hostile invaders, treat them as guests
- ✓ Have positive and professional attitude – first impressions are very important
- ✓ Be available and flexible – don't ignore requests
- ✓ It's OK to ask for a reasonable delay



Audit Logistic Changes

- ✓ Audits conducted virtually
 - Virtual meetings –
 - ❖ sharing screens to show system process or walkthrough document
 - Providing electronic documentation
 - ❖ use secure file transfer when sending docs to auditor
 - Electronic Communication
 - ❖ email, virtual meeting, phone
- ✓ Virtual audit should continue throughout the summer at least
- ✓ Follow UMB Safety and Health Protocols – ask first!



When Communicating with the Auditor

- ✓ Listen carefully and understand questions before answering and ask for clarification if necessary
- ✓ Have examples ready to help demonstrate your process and explanations – examples should be recent and ordinary, not anomalies
- ✓ Only answer questions asked, answer thoroughly but be brief and to the point – avoid extraneous details and avoid elaborating to fill the silence
- ✓ Avoid discussing topics outside your area of responsibility
- ✓ Be honest – it's ok if you don't know the answer, let them know you will get back to them

Understanding the Auditor's Questions



The Auditors may not be experts in your business but they are experts in identifying problems

- ✓ Remember, they have to learn your expertise in a short period of time, so they will ask many questions
- ✓ Don't assume the Auditor has experience in your particular area –its important to explain processes thoroughly from beginning to end
- ✓ They may ask questions that imply that you're doing something wrong, this could be due to unrealistic expectations about your processes
- ✓ Don't get offended or discouraged by their questions

Understanding the Auditor's Questions

- ✓ They can be persistent in their questioning and can pursue ideas that are not accurate –ask what they are looking for specifically, and explain why their idea is not accurate and suggest they speak to your supervisor
- ✓ If the auditor repeats something you said and asks you to agree to an interpretation pay close attention before you confirm because they may be preparing to write up a deficiency
- ✓ If they ask the same question several times, they may not understand your answer, ask them to clarify the question
- ✓ Do your best to ensure they understand your answers
 - Not fully understanding can lead to unnecessary audit findings
- ✓ Contact MAS if you have any concerns



Providing Documentation to Auditors

- ✓ Keep list of items requested by and provided to auditor
 - To help keep track of documents if they are not returned
- ✓ Understand why the auditor is requesting this documentation
 - To help ensure you are providing the correct document
 - Ask questions if you need clarification
- ✓ If documentation is confidential or sensitive – take appropriate measures before providing, e.g., consult supervisor
- ✓ Provide only what they ask for – avoid providing additional documentation

Providing Documentation to Auditors

- ✓ Look over the documentation to be sure
 - it is correct
 - it is clear
 - it has what the auditor is asking for
- ✓ Make sure all relevant pieces of documentation are provided
- ✓ Provide necessary explanations so they understand what they are being provided
- ✓ Do your best to ensure they understand correctly
 - Not fully understanding can lead to unnecessary audit findings

Do's and Don'ts when interacting with Auditors



- ✓ DO - Maintain a positive and friendly attitude
- ✓ DO - Maintain an open dialog and ask questions if you need clarification
- ✓ DO - Be interested in audit results
 - Inquire how audit is going and if there are any problems
 - Audit findings can be mitigated if you know early – so ASK!
 - If actions are taken early to correct findings, could be reflected in report
 - Notify MAS immediately with any audit findings or suspected problems

Do's and Don'ts when interacting with Auditors

- ✓ DON'T - Avoid the auditors or not respond to requests
- ✓ DON'T - Provide incorrect or inaccurate information/documentation
- ✓ DON'T - Air grievances and/or complaints
- ✓ DON'T - Be dishonest – they will figure it out
- ✓ DON'T - Cause Red Flags by doing the above
 - Auditor will spend more time and be less flexible working with you

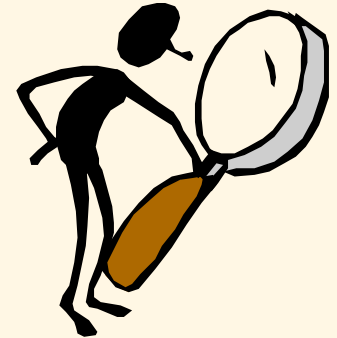


Proactive Measures and Known Risk Areas

Review Internal Control Processes

Both documented and actual

- ✓ Ensure controls functioning properly and non-compliance issues are corrected
- ✓ Ensure processes are in line with policies
- ✓ Communicate importance of compliance to employees



Key Internal Control Concepts:

- ✓ Control Activities - The policies and procedures that help ensure management directives are carried out:
 - ❖ Approvals/ Authorizations
 - ❖ Verifications/Reconciliations
 - ❖ Separation of Duties
- ✓ Preventive vs. Detective
 - ❖ Preventive control activities prevent undesirable "activities" from happening. They aim to deter instances of errors or fraud. These include thorough documentation and authorization practices.
 - ❖ Detective control activities identify undesirable "occurrences" after the fact. These include reconciliations and reviews.

A good internal control system will adequately separate functional responsibilities so that any mistakes, intentional or unintentional, cannot be made without being discovered by another person.

Review Internal Procedures

- ✓ Maintained up-to-date
- ✓ Communicated and understood

Monitor Compliance

- ✓ Perform self audits
 - Routinely test and verify that procedures are being followed and controls are working as designed
 - Discuss with employees if any concerns exist

Seek MAS Guidance

- ✓ MAS can assist if you are unsure processes are adequate or if you suspect problems exist

Known Risk Areas

Changes! Auditors often focus on anything different from previous audit cycle

- ✓ Pandemic Impact
- ✓ New systems/processes (e.g., Quantum, TBE, EEAF, Tango)

Covid and Remote Conditions

- ✓ Auditors are likely to scrutinize areas viewed as riskier during remote operations
 - Approvals/signatures, emergency purchases, increased purchases (laptops and other IT/office items, e-gift cards, etc.)
 - Controls and Requirements – alternative processes

Known Risk Areas cont'd

Quantum

- ✓ Auditors will likely review system access
 - Role Validation efforts – make sure to address any access concerns
- ✓ Pcard
 - Timeliness of Reallocation
 - Attachments in Quantum
 - Logs, Reconciliations & Reviews under remote operations

Travel Business Expense System (TBE)

- ✓ Travel system now includes other business expenses
 - Remember that the central offices are not responsible for approving these expenses, individual departments are. If Travel Admin & Travel Supervisor approve unallowable expenses it leaves us open to audit findings. When unclear, ask!!

Known Risk Areas cont'd

Employee Equipment Acknowledgement Form (EEAF)

- Recordation and assignment of DNCAs in EEAF inventory tracking system
- Remember that non-capital assets such as desktop computers which might not otherwise qualify as DNCAs must be recorded in the EEAF system if they are located in a personal residence!

Study Participant Payments (SPP)

- Tango and e-gift cards. Increased volume with vendor and new method of participant payments
- No matter the form of payment (i.e., cash, hard gift card, e-gift card), all policy and procedure controls need to be met
 - ❖ Monthly activity reviews (count vs. balance verification)
 - ❖ Document processes (monthly activity, debit memos, and reconciliations)

Wrap Up & Reminders

- ✓ Notify MAS when auditors start work in your area
- ✓ Keep MAS informed of any audit findings communicated to you by auditors or if you suspect a problem
- ✓ Remember MAS is here to assist you in dealing with auditors
- ✓ Contact MAS with any questions you have about
 - audits in general or
 - processes in your department
- ✓ Relax and don't panic!
 - consider the audit as a way to improve operations and not as criticism





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