

# How to Be External Audit Ready June 13, 2012

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# How External Audit Smart Are You (EASY)?



## EASY Quiz:

### **UC is subject to external audits because**

- A. Some unflattering reports in the media in recent years about UC fee increases and UC senior administrators' pay increases have resulted in UC being subject to financial audits at least annually.
- B. Any public university with over 10 Nobel Prize winners must be audited periodically, preferably in the year the prize is given. This is to ensure there is no academic fraud and the prize is richly deserved.
- C. UC is well-known for its liberal politics. Somebody's got to keep an eye on those bleeding-heart liberals/socialists, and their spend, spend, and spend ways.
- D. Bears are dangerous animals. Any university with a mascot named after a man-eating beast must be audited.
- E. All of the above.
- F. None of the above.



**And the correct answer is...**

**F. None of the Above.**

# Why?



# Why are the good, honest, and sometimes goofy people of UC subject to audits?





➤ **Federal requirements**

All non-federal entities that expend \$500,000 or more of federal awards in a year (\$300,000 for fiscal year ending on or before December 30, 2003) are required to undergo an annual audit in accordance with the [Single Audit Act Amendments of 1996](#) and [OMB \(Office of Management and Budget\) Circular A-133](#)

➤ **State of California statutory mandates and other requirements**

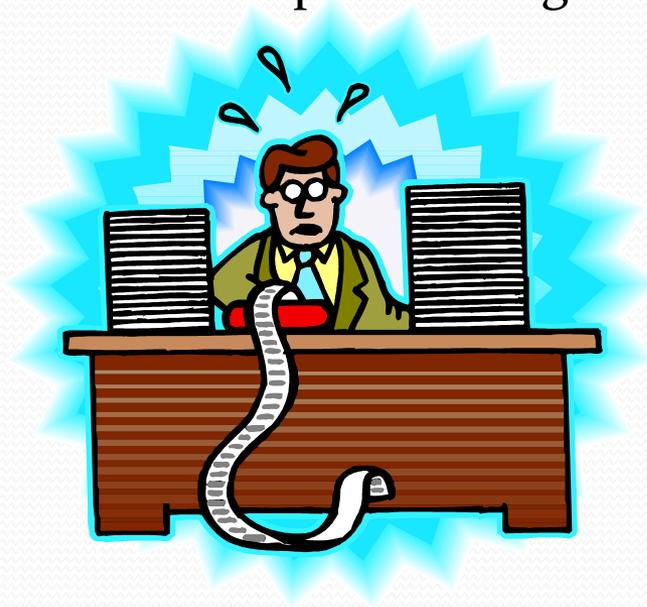
➤ **Donor or sponsor requirements**

➤ **May be prompted by tips or as part of an investigation**

External auditors are auditors  
who are



- Independent of the entity being audited
- Employed by or work on behalf of
  - A CPA firm – for example, PwC
  - Office of the Inspector General
  - Various agencies from whom we have pass-through funds
  - State of California



## How Controller's Office Tracks and Reports Audits

- Communicate to departments that they should always inform the Controller's Office, especially Lisa Vanderfin, Director of General Accounting, and Todd Vizenor, Compliance Manager.
- Audits are reported to CFO and audit committee.

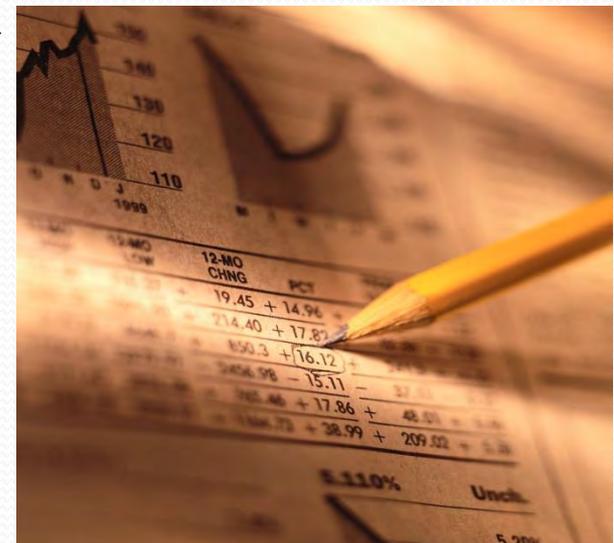
# Types of External Audits

- Financial statement audit
- A-133 audit
- Program audit
- Audit as subrecipient
- Special areas audit
- Desk review
- Investigations

# Types of External Audits

## ➤ Financial Statement Audit

- Periodic or specific purpose audit conducted by external qualified accountant(s).
- Its objective is to determine, among other things, whether
  - (1) the accounting records are accurate and complete;
  - (2) the accounting records are prepared in accordance with the provisions of GAAP; and,
  - (3) the statement prepared from the accounts present fairly the organization's financial position, and the results of its financial operations.



## Types of External Audits (Cont.)

- **A-133 Audit**

- **Program Audit**

The auditor examines a program or award to analyze the effectiveness of its administration.

Example: CIRM construction audit.

- **Audit as Subrecipient**

- **Special Areas Audit**

Example: property audit.

- **Desk Review**

Cursory review by the auditor without fieldwork.

# Types of External Audits (Cont.)

## ➤ Investigations

- May be unannounced.
- May be prompted by a whistleblower.
- May result from a tip from the Hotline.
- Coordinate with the Office of General Counsel for any investigations but notify the Controller's Office.



# Stages of an Audit

- Audit Announcement
- Entrance Conference
- Document Request
- Field Work
- Exit Conference
- Findings, Recommendations, Draft Report and Management Response
- Final Report
- Follow-up and Close-out

# Stages of an Audit

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## Announcing the audit:

In this stage, the auditor will send out an engagement letter notifying UC of an audit. The letter will spell out:

Scope and objective of the audit

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Period and area(s) of review

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Reason for the audit

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Name(s) and contact info of the auditor(s)

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Start date and estimated duration of audit

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Any documents needed in advance

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Any other relevant info

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# Helpful Tips for This Stage of the Audit

## ➤ **Contacts**

The Controller's Office (the Office) is responsible for coordination of all campus audits conducted by external auditors. The Office has extensive audit experience and wants to help you work successfully with the auditors. If you are contacted by an external auditor, please immediately notify the Office. Below are the people from the Office whom you should contact:

- **External Audits – Contracts and Grants**

Frank Kinney, Extramural Funds Accounting Interim Director  
642-1371; [fkinney@berkeley.edu](mailto:fkinney@berkeley.edu)

Todd Vizenor, Extramural Funds Accounting Compliance Manager  
643-6277; [t\\_vizenor@berkeley.edu](mailto:t_vizenor@berkeley.edu)

- **Other External Financial Audits**

Delphine Regalia, Assistant Vice Chancellor and Controller  
642-3881; [dmregalia@berkeley.edu](mailto:dmregalia@berkeley.edu)

Lisa Vanderfin, Director of General Accounting  
643-8131; [vanderfi@berkeley.edu](mailto:vanderfi@berkeley.edu)

# Helpful Tips for This Stage of the Audit (Cont.)

## ➤ **Planning**

- Treat the audit as a priority!
- Designate an audit liaison person for your department or unit. In most cases, the most appropriate person for this role is the department manager. Designate an alternate in case the audit liaison is not available.
- Logistics: parking, AirBears, office for the auditors, and so on.
- Communicate to faculty and staff in your department about the upcoming audit and that if the auditors contact them directly, they should immediately notify your department's audit liaison.

# Helpful Tips for This Stage of the Audit (Cont.)

❖ *An ounce of prevention is worth a pound of cure!*

Always implement your program or activity in anticipation of an audit.



# Helpful Tips for This Stage of the Audit (Cont.)

- Some questions to ponder:
  - Are adequate written policies and procedures in place?
  - Are controls adequate? (More about controls later.)
  - Are the controls documented? (Sometimes it's very helpful to have a checklist for controls.)
  - Have the controls been implemented as documented?
    - Example: Procurement – Is there adequate segregation of duties? Has the conflict of interest issue been addressed?
  - Do you keep adequate books and records of specific transactions?
  - Did you correct the deficiencies noted in the last audit?

# Stages of an Audit (Cont.)

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Entrance Conference: Auditors will meet with key personnel from the department to be audited and the Controller's Office.

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Discuss:

Audit objectives

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Areas to be audited

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Audit plan and timeframe

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Logistics

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Other relevant issues

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# Helpful Tips for This Stage of the Audit

- Schedule the entrance conference so that the Controller's Office contact can attend.
- Demonstrate a positive attitude.
- Have the auditor explain why your department was selected for an audit.
- Clarify the audit objective and scope (areas to be tested and period covered).
- Understand the audit process.
- Understand the reporting process and determine who will receive audit reports.
- Inform the auditor the logistics arrangement - AirBears, workspace, parking permits, and other considerations such as lunch and bathrooms.
- Identify the timelines for the beginning and end of fieldwork, report date, and so on.

# Stages of an Audit

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Document  
Request:

Policies and procedures, including key internal control documents and matrix

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Org chart

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Detailed and/or specific transactions

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Supporting documents for the transactions (receipts, invoices, approval forms, among other things)

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# Helpful Tips for This Stage of the Audit

- Ask the auditors for a list of requested documents.
- Review records you are providing to anticipate questions and to ensure they are what the auditors are looking for. If a record may appear harmful to the University's interest, notify your department management and the Controller's Office of the possible issue immediately.
- Ensure original documents do not leave department premises without prior approval. Make copies of any documents leaving department premises.
- Do not provide documents that are not relevant.

# Helpful Tips for This Stage of the Audit (Cont.)

- Have the requested documents ready upon the auditor's arrival. Subsequent record requests from the auditor should be handled as soon as possible.
- Communicate the reasons for any significant delays in providing any documents.
- If a request is vague, ask the auditor for clarification and the reason(s) for selecting the document for review. Be prepared to recommend alternate documents that would achieve the auditor's purpose.
- In general, do not allow auditors full access to your file cabinets, storerooms, and so on. Auditors should obtain permission and state their objective for accessing these areas. Pulling and filing away the documents should be done by your department personnel.
- Maintain a list of records provided to the auditor. Ensure all records are returned at the completion of audit fieldwork.

## Stages of an Audit (Cont.)

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Auditor Field Work and Weekly Meetings with UC Personnel:

Interim – auditors will be reviewing internal controls, pulling and analyzing samples, conducting interviews and updating system documentation. This interim usually takes place before yearend.

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Final – auditors will be verifying balances, suggesting financial adjustments and determining implications of errors.

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# Helpful Tips for This Stage of the Audit

- **The department audit liaison should**
  - Keep the audit focused.
  - Facilitate the audit. For example, make department personnel available for interviews or to answer questions.
  - Keep in constant communication with the auditor.
  - Resolve audit issues as soon as they are brought to the department's attention.
  - Keep all parties informed on the progress of the audit.
  - Keep the Controller's Office informed on the progress of an external audit.

# Helpful Tips for This Stage of the Audit (Cont.)

## ➤ **Audit of a Specific Transaction**

- Limit conversation to the transaction in question.
- Explain how the transaction benefited the grant, activity, or budget.
- Explain how the transaction was identified to the grant, activity, or budget.
- Do not bring in funding issues or departmental politics.

# Helpful Tips for This Stage of the Audit (Cont.)

## Understand Key Audit Terms

### ➤ **Internal Control**

A process, which is effected by an entity's board of directors, management and other personnel, and 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.

Examples:

1) Segregation of duties – do not have one person initiating, approving, processing and reviewing a transaction. This helps to establish a system of checks and balances to minimize the risk of one or a group of employees engaging in or concealing mistakes or fraud.

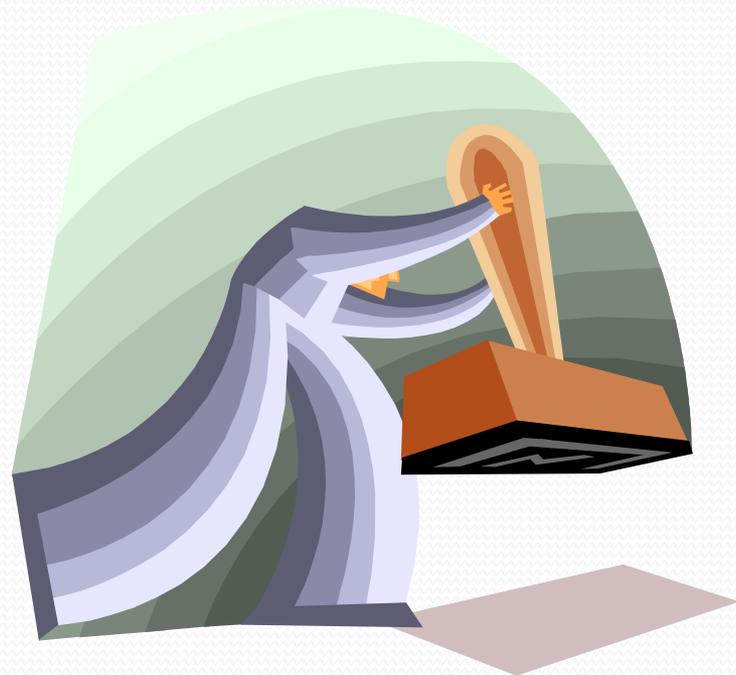
# Helpful Tips for This Stage of the Audit (Cont.)

## Understand Key Audit Terms

### ➤ Internal Control

Examples (cont.)

2) Proper Approval



# Helpful Tips for This Stage of the Audit (Cont.)

## Understand Key Audit Terms

### ➤ Internal Control

Examples (cont.)

3) Ensure Adequate Due Diligence



*Hey, Bernie here, calling  
from my federally funded  
vacation spot. I've got some  
fantastic  
AAAAAAAAAAAAAAA-rated  
Greek, Italian, AND Spanish  
bonds to sell you at a terrific  
price! Act fast! Buy now!*

# Helpful Tips for This Stage of the Audit (Cont.)

## Understand Key Audit Terms

### ➤ **Material Weakness**

A deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



# Helpful Tips for This Stage of the Audit (Cont.)

## Understand Key Audit Terms

### ➤ **Significant Deficiency**

A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



# Stages of an Audit (Cont.)

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Findings,  
Recommendations  
and Management  
Response:

How the  
response  
process work

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How to respond to  
recommendations

Verify facts

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Consider if the recommendation directed toward an activity that the department can control

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Department should draft the response, but response should flow through the Controller's Office

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Ensure the recommendations will not be overly burdensome to UCB.

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## Stages of an Audit (Cont.)

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Exit  
Conference:                      Agree findings list is final

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Set timetable for issuance of draft report

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Discuss any other relevant issues

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# Department Action Group

## ➤ **Weekly meetings**

- Discuss finding and response.
- Create new procedures, controls, etc.
- Document activities that satisfy recommendations.
- Members drop off meeting when their responsibilities have been met.

## ➤ **Create response document**

- Create a document listing the original findings and the corresponding response and corrective actions taken or proposed.
- Attach evidence of any actions taken.
- Review response document with the Controller's Office.
- Submit document to auditor.
- Request written response from auditor.

# Some Do's and Don'ts When Interacting with External Auditors



## Do's



- Be honest and open.
- Recognize they may be experts.
- Realize they may not be subject matter experts.
- Understand the purpose of the meeting and review related records prior to interviews.
- Ask the auditor to clarify a question or request if you are not clear about it.
- Listen carefully and understand each question before answering. Be sure responses are complete and accurate.
- Respond only to the question asked – keep answer simple and direct.
- Weigh answers carefully, being certain you have the facts to back them up.
- Limit comments to areas where you have "first-hand" knowledge.

## Don'ts



- Do not speculate or answer hypothetical questions.
- Do not agree or disagree with opinions.
- Do not "ramble" or provide irrelevant information (such as office gossip).
- Do not get offended by WHY questions.
- Do not sign anything on behalf of the University.
- Do not treat the auditor as the go-to person to vent any frustrations that may arise during the course of your work.