Attendees will learn

• What is Internal Audit
• What are Risks and Controls
• What and How Internal Audit Does What is Does
• What is Your Role in All This
• Documentation 101
INTERNAL AUDIT

JUST
WHO - AND WHAT -
ARE WE ?
Internal Audit’s Mission

To provide independent, objective assurance and consulting services designed to improve the operations and internal controls of the University.

WHAT WE DO

AUDITS, AUDITS, AND.....YET MORE AUDITS
• Financial Audits

• Compliance Audits

• Information Technology Audits

• Operational Audits

• Investigative Audits

Based Upon Professional Standards & Ethics

Internal Audit conducts its activities in accordance with The Institute of Internal Auditors’ “Code of Ethics” and the International Standards for the Professional Practice of Internal Auditing
HOW WE DO IT

- Annual Risk Assessment
- Rolling 3 Year Plan
- Annual Plan - Individual Audits
4/25/2013 Internal Audit/Research Training

historical data
external inputs
professional judgment

<table>
<thead>
<tr>
<th>INVENTORY of INTERNAL AUDIT PROJECTS/INTERNAL AUDIT UNIVERSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPMG LLP ASSIGNED PROJECTS (NONE after 12/12/07 per C Chepel)</td>
</tr>
<tr>
<td>INFORMATION TECHNOLOGIES AUDITS:</td>
</tr>
<tr>
<td>1 IT Accounts Receivable/Billing Application Controls</td>
</tr>
<tr>
<td>2 IT ACH</td>
</tr>
<tr>
<td>3 IT Asset Management System</td>
</tr>
<tr>
<td>4 IT AT&amp;T Blackboard System (UD#1 Flex, Meal Points. Etc.)</td>
</tr>
<tr>
<td>5 IT BSR Advance (Gift Processing) System</td>
</tr>
<tr>
<td>6 IT Central Cashiers System</td>
</tr>
<tr>
<td>7 IT CISP Card Industry Audit Initiative</td>
</tr>
<tr>
<td>8 IT Cognos Data Warehouse Application &amp; Security</td>
</tr>
<tr>
<td>9 IT Cashnet Interface</td>
</tr>
<tr>
<td>10 IT Data Encryption</td>
</tr>
<tr>
<td>11 IT Data Security Function</td>
</tr>
<tr>
<td>12 IT Data Telecommunications</td>
</tr>
<tr>
<td>13 IT Database Administration</td>
</tr>
</tbody>
</table>
SI = Supplementary Information for Contracts and Grants System Audits:
1. CFS Cash Management (e.g., Letter of Credit Draw Downs)
2. CFS Close Outs
3. CFS Collaborations/Partnerships
4. CFS Conflict of Interest Procedures
5. CFS Compliance with Grant Restrictions, Terms and Conditions for Direct Costs
6. CFS Cost Transfers
7. CFS Fringe Benefits and Facilities and Administrative Cost Allocations
8. CFS Program Income
9. CFS Proposal Budget Preparation
10. CFS Recharge Centers
11. CFS Reporting (e.g., SF 269 Federal Financial Reports)
12. CFS Subrecipient Monitoring
ROLLING THREE-YEAR INTERNAL AUDIT PLAN
2014-2016

Information Technology

1. Information Technologies
   a. Information Security
   b. Business Continuity
   c. Library and Information Management
   d. Systems Management
   e. Financial Management

Central Financial Systems

1. Central Financial Systems
   a. Accounts Receivable
   b. Accounts Payable
   c. Accounts Payable Post Office
   d. Accounts Payable Processing
   e. Accounts Payable Accounting and Compliance Walsh Units
   f. Accounts Payable Accounting and Compliance Central Financial Systems

1. Compliance and Internal Controls
   a. Financial Policy
   b. Financial Management
   c. Financial Management Issues
   d. Financial Management Compliance
   e. Financial Management Compliance Walsh Units
   f. Financial Management Compliance Central Financial Systems

1. Sales and Marketing
   a. Sales and Marketing
   b. Sales and Marketing Issues

University Departments

1. University Departments
   a. 1743 Holdings, LLP
   b. Construction
   c. Intercollegiate Athletics
   d. Library
   e. Procurement
   f. Procurement Cards
   g. Other University Departments (e.g., The Colleges and Other Academic, Research, Auxiliary and Administrative Units)

Compliance and Internal Controls

1. Compliance and Internal Controls
   a. Compliance and Internal Controls

Consulting and Special Projects

1. Consulting and Special Projects

WHAT WE DON’T DO

• Make Policy
• Perform Departmental Work
• Reconcile Accounts
• Set up Internal Controls
• Try to Make Life Miserable
What’s Internal Control All About

Control Types
INHERENT CONTROL LIMITATIONS

CONTROL OBJECTIVES

• Authorization
• Completeness
• Accuracy
• Validity
• Physical Safeguards & Security
• Error handling
• Segregation of Duties
Who’s Responsible For Internal Controls?

You!

INTERNAL CONTROL COMPONENTS

- Control environment
- Risk Assessment
- Control Activities
- Information and communication
- Monitoring
An audit by another name is still...

an *audit*

- Federal Government – Office of Naval Research is UD’s cognizant agency
- Sponsors
- A-133 Auditors—KPMG
- Program Auditors
  - Campus tell C&G Specialist when contacted regarding any audit
  - MUST tell VP Fin office when programs contact us
  - Coordination and information must come from Research & VP Finance for consistency
- Internal Audits

What’s An Audit
- Opening conference
- Preliminary review
- Testing
- Exit meeting
- Draft audit report
- Final audit report
- Management’s written response
- Summarized report
- Follow-up
The Audit Program – The Roadmap

Purpose of Audit Program

What may be included in an audit

- Identify major programs based on expenditures in fiscal year (SEFA)
- Cash Management
- Review previous audit findings
- Cost share (committed vs. actual)
- Review new programs or those with regulatory changes
- Expenditures (budget vs actual)
- Financial Reporting
- Effort Reporting
- Review personnel or system changes
- Subawards
- UD Policies & Procedures
# AUDIT PROGRAM EXAMPLE

## Program Objectives
This is a limited scope review and consists solely of ensuring that credit card charges to Federally sponsored programs are in compliance with Federal rules and regulations regarding allowability, allocability, and reasonableness as well as ensure University policies and procedures were being followed.

<table>
<thead>
<tr>
<th>Program Step</th>
<th>Results</th>
<th>W/P Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminary Documentation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Obtain a download of all credit card transactions for FY2013 that have been charged to Federally Sponsored Program funds (purpose XXXX4...) from the Financial System. The query names are ALID_FEDCG_PCARO_TRANS and ALID_FEDCG_PCARO_TRANS_BYCH.</td>
<td>A download of all contract and grant transactions charged to sponsored funds has been secured. A copy of the spreadsheet has been doc-linked here: Fed_PCard_Transactions_082312.xls</td>
<td>N/A</td>
</tr>
<tr>
<td>Several individuals reviewed the listing and selected numerous transactions for review. A final selection of 30 grant transactions was made and the spreadsheet documenting this selection is doc-linked here: 2013_Fed_Grants_Testing.xlsx.</td>
<td>No copy of the report has been included in the work papers due to the number of items appearing on the report.</td>
<td></td>
</tr>
<tr>
<td>1. Review the transaction listing for unusual items or items that would not seem to be an appropriate purchase that would be made on a Federal contract or grant. Judgmentally select 30 transactions for further review.</td>
<td></td>
<td>FPC-0-1</td>
</tr>
<tr>
<td>1. Secure copies of the grant documentation for each transaction in the selection.</td>
<td>The information was requested from the department and secure for each grant selected as part of the review.</td>
<td>Individual Sample Items</td>
</tr>
</tbody>
</table>
Audit questions/observations

• Verify checks and balances

• Verify terms are followed

• Verify there are appropriate processes in place

AUDIT WORKPAPERS
Vulnerabilities

- Pro card / Travel Card
- Lingering close outs
- Oddities
- Unlike circumstances

RED FLAGS

Take IMMEDIATE action!
Types of findings

- Material weaknesses
- Significant deficiencies
- Deficiencies

- *Questioned costs can result from all above*
Your internal controls are found to be weak and/or non-existent?

Common responses usually include:

• “We don’t have enough staff to handle adequate segregation of duties.”
• “It is too expensive to do it that way.”
• “I trust my people and controls are not necessary.”

Controls and Research?

WHY?
Recent Audit Findings

**Florida State University**
- Repay $3,000,000
- DHHS NSF OIG audit
- 2008-2010
- Failed to ensure
  - Allowable
  - Allocable
  - Reasonable

**UC – Santa Barbara**
- Repayment of $6.3 million being questioned
- NSF OIG audit
- 2 year audit
- Issues
  - Overcharged summer
  - Cost share
  - Cost Transfers
  - Unallowable

**Univ. of Wisconsin-Madison**
- Reversal of repayment request
- HHS OIG
- Unallowable cost for equipment due to not requesting prior approval
- NIH and sponsor protested

What to Expect if Audited?
- You are guilty until proven innocent
- The burden of proof regarding allowability is on the University NOT the auditor
- Individuals in departments other than RO may be interviewed and/or expected to provide information
• Cost Transfers
• Effort Reporting
• Closeouts

Who’s who: Roles and Responsibilities

Administrator
• Read the award
• Know the terms
• Translate rules to outcomes
• Question expenses
• Maintain documentation

Principal Investigator
• Read the award
• Know the terms
• Present ideas of WHAT is desired outcome
• Justify allowability
• Provide justification

Central Office
• Read the award
• Know the terms
• Guide and facilitate decisions
• Seek sponsor approvals as needed
• Help determine relevant documentation
Before anything else, preparation is the key to success.
~Alexander Graham Bell

For every minute spent in organizing, an hour is earned.
~Anonymous
Keys to a Successful Audit

Audit Trails... “If it’s not documented, it didn’t happen....”

Building a stronger document

Supporting details

Justification

Approvals
Ask yourself...

• Would a stranger *understand* this justification?

• Would I understand these details in a 6 month *review* of the document?

• Do I *believe* this justification?

Audits

• Question: When do you start preparing for an audit?

• Answer: The day you prepare a proposal
Being “audit savvy” is...

• Being proactive
• Being prepared
• Being persistent

EXERCISE

build strong documentation
Let’s build the documentation

• Scenario 1: Computer/peripherals purchase

• Scenario 2: Cash Withdrawal on UD credit card

• Scenario 3: Amazon.com purchase

Scenario 1: Computer & computer peripherals purchased on federal award

• Examine receipts: are they complete?
• Documentation requirements: are they met?
• Charges: are they allowable?
Scenario 2: Cash Withdrawal on UD credit card

- Documentation requirements: are they met?
- Use of funds: is it allowable?
- Reconciliation: what is necessary?
Scenario 3: Amazon.com purchase

• Documentation requirements: are they met?
• Charges: are they allowable?
• Approvals: what approvals?
Receipt Documentation Excerpt

Audits...
• Are necessary
• Should not be feared
• Validate good business processes

Documentation...
• Validate expenses
• Can be obtained in many ways
• Ensures good monitoring /business processes
Questions?

Contacts

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Cheryl Morris, Sr. Auditor – Information Technology
Maria Poole - Audit Specialist
Eileen Burns - Business Administrator II, Chemistry & Biology
Ian Janssen - Director, Archives