Best Practices and Emerging Government Auditing and Financial Management Issues

Presented to Austin IIA by
Stephen L. Morgan, CEO, EGAPP, Inc.
egappmorgan@yahoo.com
October 7, 2014

Class Today is Presented from the Perspective of Performance, Compliance, and Internal Auditing and Financial Management

- What is performance auditing?
- Why is performance auditing important?
- Say good morning to each other and answer these two questions.
Performance Audits Defined in Yellow Book (Government Auditing Standards)

- Provide objective analysis to improve program performance and operations, reduce costs and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability.
  - Identify outstanding, adequate, and poor performance and the related consequences.
  - Suggest practical solutions for improving performance, as appropriate.
  (GAGAS2011, par 2.10, A2.02)

Performance Audit Objectives

- Program effectiveness and results
- Economy and efficiency
- Internal control
- Compliance
- Prospective analysis
  (par 2.11)
Performance Auditing Definition

- Performance auditing is an interdisciplinary, knowledge profession relevant and essential to decision makers at all levels.
- Based on auditing standards, performance auditors provide reality based information on the past, present, and future.
- Performance auditors verify/interpret existing information to ensure it voracity.
- Performance auditors create new reality based information to strengthen accountability.

Recent and Growing Concerns: Is government auditing and financial management in trouble? Is it Armageddon for Auditors and Accountants?!

- We need to get more efficient now; we need to get better now; we need to have a significant impact now.
- As staff functions we are expendable (except for payroll!).
- Given the pending deep cuts, government as we know it is permanently changing.
- If we go away now, we might not be missed.
Today’s presentation is about hope and vitality—how to identify and respond to Emerging Issues now and in the future.

- The tone has changed to be more urgent but we are up to the challenge. **Right??!!**

- What can we do to ensure government auditing and financial management have bright futures as interdisciplinary, knowledge professions relevant and essential to decision makers at all levels?


I. Where does information on emerging issues come from and what are the processes to identify them?

II. What are the imminent emerging issues or issues on the horizon?
   (Feedback from Everyone Today and Panel Discussion on How to Address EI Challenges)

III. What are the issues beyond the horizon that can be envisioned?

IV. How can we respond as individuals, offices, and interrelated professions?

V. Conclusion
Exercise One: How do you currently identify emerging issues in government auditing and financial management as they pertain to your organizational environment?

--Discuss and share processes, tools, techniques, and other methods you use or your office uses to identify emerging issues.

--Which approaches work and why? (Report Out)

I. Where Does Information on Emerging Issues Come From?

- Research and books
- Contacts/networks
- Other audit and non-audit offices
- Professional organizations/Standards setters
- Conferences and training
- Our own offices and organizations
Contacts and Networks

- Social media
- Websites
- Election lines
- Tailgate parties/Friday afternoon socializing
- Connected 24/7—is it helping us identify emerging issues?
Professional Organizations Provide Audit and Accounting Guidance

- GAO issues professional standards updates and technical guidance through the Yellow Book website including regulatory and accounting updates

- IIA publishes the International Professional Practices Framework

- AICPA issues SASs and technical guidance

- GASB and FASAB issue guidance and requirements in the USA; PSAB does this for Canada including the provinces

Prepare/Assure/Audit Performance Reports

Tools Available at www.auditorroles.org

GASB: U.S. State & Local Government Reporting Guidelines

U.S. Federal GPRA Criteria:
- OMB
- AGA (SEA and CEAR)
- Mercatus Center
Performance Reporting Criteria: Canada

Based on CICA-PSAB “SORP-2”

Statement of Recommended Practices on Public Performance Reporting, 2006

Public Performance Reporting
Guide to Preparing Public Performance Reports

May 2007

Also Federal Guidance from the Treasury Board Secretariat

Questions?

The Institute of Internal Auditors

Proposed Center for Government Auditing potentially for 2014

Richard CP Chambers, CIA, CGAP, CGA, CRMA
richard.chambers@theiia.org

Twitter: @RFChambers
Processes to identify emerging issues in our own audit and financial management offices and in organizations we audit or help manage:

- Individual planning/networking
- Project or program level planning
- Annual office or agency level planning
- Strategic or government wide planning

II. What are the imminent emerging issues or issues on the horizon, many already on our radar screens?

A. Expectations of government officials including those for auditors and financial managers

B. Exercise: What do you think the issues are using your prospective, analytical approach?

C. Panel Discussion: What do auditors at different governmental levels think the issues are?

D. Imminent issues categorized
II. A. Expectations of Government Officials

- “Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program.” (par 1.01)

---

**Mission Performance Goals**

<table>
<thead>
<tr>
<th>Input Economy</th>
<th>Process Efficiency</th>
<th>Output Effectiveness</th>
<th>Outcome Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Productivity</td>
<td>Quantity</td>
<td>Mission &amp; Outcome Goal Achievement</td>
</tr>
<tr>
<td>– Amount, timing</td>
<td>Unit Cost</td>
<td>Quality: products, delivery</td>
<td></td>
</tr>
<tr>
<td>Physical</td>
<td>Operating Ratios</td>
<td>Timeliness</td>
<td>Financial Viability</td>
</tr>
<tr>
<td>– Quantity, quality</td>
<td></td>
<td>Price/Cost</td>
<td>Cost-Benefit</td>
</tr>
<tr>
<td>– Timing, price</td>
<td></td>
<td></td>
<td>Cost-Effectiveness</td>
</tr>
</tbody>
</table>

**Crosscutting Performance Goals**

- Compliance with Laws and Regulations
- Resources - Safeguarding - Infrastructure
- Continuous Improvement
- Reliability, Validity, Availability of Information
- Underlying Values
- Customer and Stakeholder Satisfaction
What do we expect the auditors to do?

- Oversight
- Detection
- Deterrence/Prevention
- Insight
- Foresight

Audit Types and Processes

- Assurance/Accountability (Audit)
- Consulting/Assistance
- Integrity – Investigative Audits
  - Deterrence
  - Detection
  - Investigation
  - Follow Through
Five Roles Auditors Play in Government Performance Auditing, Measurement and Management (www.auditorroles.org) (see Handout #1)

Consulting/Assistance Services

- Advisory assistance vs. decision making
- Design vs. implementation
- Adding value through expertise
What do we expect the financial managers to do?

- Financial reporting to provide oversight and accountability
- Insight and foresight to support decision making, risk identification, and control
- Models to support performance improvements in systems and service delivery
FINANCIAL REPORTING AND CONTROL

- Comprehensive Annual Financial Report
- "Clean" auditor opinions on the reliability of the financial information
- Controls Over Assets, Liabilities, Revenues, and Expenditures

COSO/ERM Model in Government

Department
Agency
Program
Service
Monitor Government Performance Through Its’ Measurement System

MISSION STATEMENT

GOALS
- DEPARTMENT
- AGENCY/OFFICE
- DIVISION
- SECTION
- UNIT
- PROGRAM

PERFORMANCE MEASURES
- INPUT
- PROCESS
- OUTPUT
- OUTCOME

IMPLEMENTATION
(Monitoring System)
- DATA
- ANALYSIS
- ACTION

ASSESSMENT

Manage Government Performance through Its’ Accountability System

PLAN
Strategic & Annual Planning

ACT
Performance-Based Decision Making

CHECK
Performance Measurement & Reporting

DO
Performance Budgeting
II. B. Exercise Two: Prospective, Analytical Exercise

- What do you see as the emerging issues now facing auditors and financial managers internally in our offices and professions? (Report Out)

- What do you see as the emerging issues externally in the organizational environment that will have the greatest impact on our offices and professions? (Report Out)

II. C. Panel Discussion: Views from Different Governmental Levels

- Panel Member Introductions
- Perspectives on what are the emerging issues at each level of government
- Perspectives on how to address emerging issues including strategic planning and decisive, proactive actions
- Perspectives on how to address individual emerging issues, such as the oil and gas boom in Texas, baby boomer retirement, new editions of the Yellow and Red Books next year, water shortages, and social media vs. privacy and ethics concerns
II. D. What are the imminent emerging issues in our organizational and societal environments?

- Governance
- Human Capital
- Knowledge/Information Management
- Economic and Financial Sustainability
- Accounting and Reporting
- Efficiency and Timeliness

Governance Issues Facing Government Auditors and Financial Managers

- Reporting Structures: Independence and Objectivity
- Decision Making Processes
- Report to the Citizens: Public Accountability and Impact
- Ethical cultures in the workplace
- Barriers to individual and organizational integrity
**Human Capital Issues**

- Diversity of the workforce (values, ages, ethnicities, cultures)
- Mobility of the workforce
- Motivation of the younger workforce to become long term audit/financial professionals
- Adaptability of the older workforce
- Competence of the entire workforce
- Level of funding for audit/financial resources—never enough
- Ever changing leadership group due to elections, appointment, retirements, and resignations

**Knowledge/Information Management Issues**

- Succession strategies
- Physical vs. virtual workplace
- Technology solutions: IT integration into all processes and services
- Technology challenges: disparate information sources, platforms, software, etc. that make collecting/validating data more difficult
- Evolving, even revolutionary, impact of social media
- Privacy concerns
Financial Sustainability Issues

- Need solutions—foster culture of tolerance and compromise by elected officials for the other party’s views
- Funding (grants, education, & training)
- Entitlements (especially health care and pensions)
- Economic vitality (job creation and recovery programs)
- Intergenerational burdens (especially baby boom and global warming)
- Demand for resources (especially energy)
- Bottom line: Essential services vs. deficits

Government Accounting and Reporting Issues

- Recognizing liabilities now (accounting for promises made but not funded)
  --Pensions
  --Pollution remediation
  --Social insurance (especially Social Security)
- Integrating financial and performance reporting
  --Inputs
  --Outputs
  --Outcomes
Government Accounting and Reporting Issues-- Continued

- Citizen centric reporting
  - Transparency
  - “Easy to understand” financial and performance information
  - Customized analysis and reporting (websites)

- Convergent standards among levels of government and among nations
  - Generally accepted models
  - Compatible standards

Efficient and Timely Systems and Services Issues

- Public/private partnerships that work to create investment that provide better services
  (examples are leasing, co-sourcing, and outsourcing)

- Streamlining the grants and contracts administration and reporting processes

- Reduce, eliminate, prioritize or better manage fiscal and program requirements
Ron Raaum’s “Top Six” Imminent Issues
(Ron was my supervisor at the GAO in DC and co-author of several books.)

- Impact of ongoing negative trade balances
- Investment to repair and rebuild roads, bridges, and other infrastructure
- Funding to pay for short and long term veteran disability and medical care
- Funding to support low wage workers and the unemployed, especially the structurally unemployed
- Solutions/funding to ease student debt burden
- Growing underground economy that reduces tax revenue (see marijuana)

Dr. Michael Granof’s Top Three Imminent Issues
(Michael is a “renowned” University of Texas Accounting Professor on GASB and FASAB)

- Unfunded pension liabilities
- Health care reform and sustainability
- Deferred maintenance and lack of sufficient infrastructure investment
Steve Morgan’s Top Three (Steve hangs out at golf courses, beaches, and casinos)

- Forgiving student debt so graduates do not have to live with their parents
- Funding Baby Boomers who did not save for retirement—great food, housing, electronic devices, tailgate parties, entertainment in general
- Keeping inflation in check during our lifetimes

OK—sounds like I just want to have fun and organize a Longhorn tailgate party (if we can win a game, any game!—so who is going and what are you bringing?

III. What Issues are Beyond the Horizon?

- Exercise Three
- Discussion
- What we might imagine
Exercise Three: Visioning—Feelings and Imagination Exercise

If you fell asleep and didn’t wake up until the year 2034, what changes in government auditing and financial management would you see around you when you opened your eyes?

Issues Beyond the Horizon

- Auditing/Reducing corruption
- Auditing/Coordinating governance structures at the highest levels
- Auditing/Managing through intergovernmental and global partnerships
- Auditing/Managing with “worldwide best practices” and exceptional performance
Issues Beyond the Horizon—Cont.

- University level, interdisciplinary auditing and financial management curricula
- Manage and audit a “totally virtual workforce”
- Negative: Replace auditors and accountants with computers/androids/robots
- Positive: Auditors without “adjectives”
- Positive: Ethical and competent managers who anticipate and respond effectively to emerging issues

IV. How can we respond as individuals, offices, and as a profession?

A. Skills, competence, and expertise of auditors and financial managers—we bring a lot to the table now (RIGHT!)

B. Exercise Four: Suggested solutions from you today

C. Suggested solutions from “audit and financial management experts” I queried before today

D. Act now and “do something about it” auditors and financial managers
IV. A. Skills and Competence

- University Programs
- Certifications
- Technology Tools
- Ongoing CPE

University Programs: Government Auditors and Managers Must Develop and Continuously Enhance “Integrated” Skills from Various Academic and Organizational Disciplines

- Performance
- Financial
- Information Technology
- Human/Managerial/Leadership
- Continuous Risk and Vulnerability Assessment
- Continuous Learning/Improving
Certifications Support Auditor/Financial Manager Growth and Development

CPE

- CPA
- CGFM
- CGAP
- CFE
- CISA

Technology Tools for Data Analytics: Auditors and Managers Now Utilize These Without Relying on Experts

- EXCEL
- SPSS
- ACL
- IDEA
- SAS
- GIS
IV. B. Exercise Four: Solutions to Ensure the Long Term Vitality of Government Auditing and Financial Management

(1) How can auditors and managers contribute to societal or organizational solutions?

(2) What improvements should be made in the government auditing and financial management professions?

(3) What advice would you give to newly elected or appointed public officials on how to best use services provided by government auditors and financial managers? (Report Out Just #3)

IV. C. Solutions suggested in my survey of “experts” prior to this training session

- Benchmark to “global” best practices and performance
- Rejuvenate ourselves with enhanced skills, more visible contributions, and effective relationships with stakeholders especially those in leadership roles
- Use enhanced “critical thinking,” conceptualization (models), and professional judgment in everything we do (right and left brains)
More solutions/suggestions

• Don’t duplicate agency analyses; leverage what those in our environment are doing to become more efficient and move government forward together

• For auditors, provide a mix of program-wide, cross functional audits, and targeted audits

• No TLDNR--write shorter reports; use graphics and media; pursue timely, relationship building communication

And more solutions/suggestions

• To fight fraud, look for conspiracy not just compliance

• Auditors and financial managers need to help high level decision makers know what they don’t know (without getting fired in the process of being too helpful)

• Use or develop foresight models to see and respond to risks earlier—conduct more prospective analysis to support early intervention, deterrence, and prevention
Even more solutions/suggestions

- Conduct Emerging Issues Audits (EIA’s) and Studies; for financial managers use models to look ahead and respond early

- Establish clearer and stronger legislative mandates for auditing and financial management

- Promote auditing and financial management through the social media since the local and national news doesn’t seem to be reporting on solutions anymore—just more and more problems, especially any type of disaster

And even more solutions/suggestions

- Facilitate and accelerate “stakeholder access” to integrated performance and financial information on websites

- Further strengthen Audit and Finance Committees

- Use “partnership audits” or “joint management initiatives” to take on high visibility emerging issues

- Transform now by directly helping decision makers address government revenue and spending with reality based information
A “Call to Action” on June 13, 2013 to Implement Decision Tools to Address Fiscal and Program Requirements

- Determine whether a requirement should be included in a law, regulation, or guideline
- Promote clarity through plain writing
- Obtain and protect good data

Support effective decision-making at all governmental levels to eliminate unnecessary requirements/programs and fully implement needed requirements/programs—we can do this!

IV. D. Auditors and Managers Identify and Respond Effectively to Emerging Issues

- Auditors conduct high impact audits and follow up and follow through to ensure implementation of recommendations.
- Managers provide leadership and implement systems of control to anticipate and fully address emerging issues.
- Auditors and managers can work together to facilitate the tough decisions.
Do Something About It Auditors

- If you are not auditing something important, why not?
- If you are not doing something important, why not?
- If your office is not providing important services, why not?

Audit Planning: Selection and Prioritization Under Constraints
Tough Decisions

• Judgment & courage
  - Some people consistently identify the right programs to audit, the high risks & the high impact issues.
  - Others develop mediocre issues - avoid controversy, do not take on the tough issues, lack insight, apply limited experience or knowledge, and ultimately audit the wrong programs. (Dave Hancox)

How do we achieve and measure impact?

• Can audit be linked to improvements in measured performance of those programs being audited?

• Does audit result in direct cost savings or revenue enhancement?

• Can any quantitative or qualitative impact be attributed to the audit?

• Does the audit at least “tell a good story?”
What Audit Success Looks Like

- Select the most important programs to audit
- Select the most important risks and vulnerabilities within the programs
- Develop significant effects through measurement and control based integrated performance auditing
- Base recommendations on underlying or “root” causes so the problem gets fixed or the improvement gets accomplished

Do Something About It Financial Managers

- Do we follow accounting and reporting standards?
- Do we understand our options for making tough decisions?
- Do we use models for “best practice” financial management?
- Do we leverage our communication options with our stakeholders?
Program Definition and Performance Expectations

<table>
<thead>
<tr>
<th>Input Economy</th>
<th>Process Efficiency</th>
<th>Output Effectiveness</th>
<th>Outcome Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Productivity</td>
<td>Level/Quantity</td>
<td>Mission &amp; Goal Achievement</td>
</tr>
<tr>
<td></td>
<td>Output/Input</td>
<td>Timeliness</td>
<td>Financial Viability</td>
</tr>
<tr>
<td>Physical</td>
<td>Unit Cost</td>
<td>Quality</td>
<td>Cost/Benefit</td>
</tr>
<tr>
<td></td>
<td>Input/output</td>
<td>Price/Cost</td>
<td>Customer Satisfaction</td>
</tr>
<tr>
<td></td>
<td>Operating Ratios</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Crosscutting Performance Goals

- Compliance with Laws and Regulations
- Reliability, Validity, and Availability of Information
- Maintaining Underlying Values
  - Individual Ethics and Integrity
  - Societal Equity
  - Cooperation and Partnership
- Continuous Improvement

Key questions to ask about government programs

- What is the program?
- How much has the program done?
- How well has the program done it?
- Is anyone better off than before the program was created?
Planning and Budgeting Model

HIGH

Strategic Importance

LOW

Target for Increased Funding

Strategic Success in Achieving Community or Program Outcomes

Target for Funding Cuts

Useful Contributor to Government Success

Performance Results

POOR

GOOD

Source: Use of Strategic Goals and Performance Results in Prince William County Budget Decisions

Strategic Performance Budget Decision Model:

In Reality: Varies with Fiscal Environment

HIGH

Strategic Importance

LOW

Target for Increased Funding

Strategic Success in Achieving Community or Program Outcomes

Target for Funding Cuts

Useful Contributor to Government Success

Performance Results

POOR

GOOD

Source: Use of Strategic Goals and Performance Results in Prince William County Budget Decisions
Understand Why Program Expectations Are Not Accomplished (or Are Accomplished)

- Theoretical framework is flawed, i.e., no direct cause and effect relationship exists between program and desired outcomes
- Intervening or external variables which negate, deflect, or mask the program’s effect, i.e., GASB’s emphasis on explanatory information
- Management systems/processes are deficient
- Program goals/expectations are unrealistic/unattainable
- Inputs/resources are inadequate
- Fraud, waste, or abuse gets in the way

Auditors and Financial Managers Work Together to Serve Our Stakeholders

- **Accountability**—government auditors are not a substitute for management’s monitoring systems but we can help supplement and complement them
- **Transparency**—government auditors and financial managers ultimately work for the citizens
- **Integrity**—auditors and accountants have ethical standards that apply 24/7; we must do what is right every time
- **Equity**—auditors and managers do not support favoritism in providing government services
V. Conclusion

“Auditor or Manager of the Future”
But the Future is Now!

• Integrated, Interdisciplinary Skill Set
• Essential to the Mission and Decision Makers Including Policy Level
• Provide High Impact Information On Time and Under Budget

Can YOU be an “auditor or manager of the future” now?

What to do now?

• Write down three things you are going to do to be an auditor or manager of the future now.

• Recognize no one solution will solve the problem—there is no “silver bullet.”

• To ensure a bright future, every government auditor and financial manager need better strategies for identifying and resolving emerging issues.
Additional Training/Assistance to Be a Better Performance Auditor

- EGAPP, Inc. provides training in all aspects of performance management and auditing. (Brochure Available) Email to: egappmorgan@yahoo.com

- Auditor Roles Project provides training in assessing/auditing performance management systems and measures. Assistance can also be arranged. E-mail: paul@RTMteam.net

Available at: www.theiia.org/bookstore
IIA/ACGA/EGAPP eWorkshops—see acga.theiia.org

- October 7, 9, 14, and 16 eWorkshop on Basic Data Integrity, Mining, and Analysis in EXCEL

- October 21, 23, 28, and 30 eWorkshop on Using EXCEL to Extract, Analyze, and Report on Audit Samples

- November 10 and 12 eWorkshop on “Fraud and Abuse: What is it to You?”

Thank You.

- More questions.

- More comments.

- Thank you, again.