



PERFORMANCE AUDIT METHODOLOGY:

FIVE ATTRIBUTES OF AN AUDIT FINDING

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PERFORMANCE AUDIT METHODOLOGY: TRAINING OBJECTIVES

Understand:

- Review the role of performance auditors
- Application of five attributes of an audit finding to performance audits
- Relationship between attributes

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AUDITING FOR IMPACT: AUDITOR ROLE

Performance auditors review:

- Adequacy of inputs
- Efficiency of processes
- Effectiveness of outputs



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AUDITING FOR IMPACT: AUDITOR ROLE

Performance auditors can also evaluate:

- The appropriateness of outcome measures
- The effectiveness of reporting outcomes
- The overall outcome-based focus

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AUDITING FOR IMPACT: AUDITOR ROLE

- *“Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability”*

Government Auditing Standards 2.10

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FIVE ATTRIBUTES OF AN AUDIT FINDING

- **Criteria** – What should be happening
- **Condition** – What is happening
- **Effect** – Why the deviation of condition and criteria matter
- **Cause** – What created deviation
- **Recommendation** – What should be done

See Government Auditing Standards 6.37, 6.75 – 6.77

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CRITERIA: WHAT SHOULD BE HAPPENING

“Auditors should use criteria that are relevant to the audit objectives and permit consistent assessment of the subject matter”

Performance Auditing: A Measurement Approach, p. 35

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CRITERIA: WHAT SHOULD BE HAPPENING

- Sufficient
- Credible
- Reliable
- Relevant
- Convincing



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CRITERIA: WHAT SHOULD BE HAPPENING

- Statutes
- Administrative Rules
- Policies
- Stated Program Goals/Objectives
- Prior Period's Performance
- Expert Opinions
- Generally Accepted Practices



See *Government Auditing Standards* A6.03

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CRITERIA: WHAT SHOULD BE HAPPENING

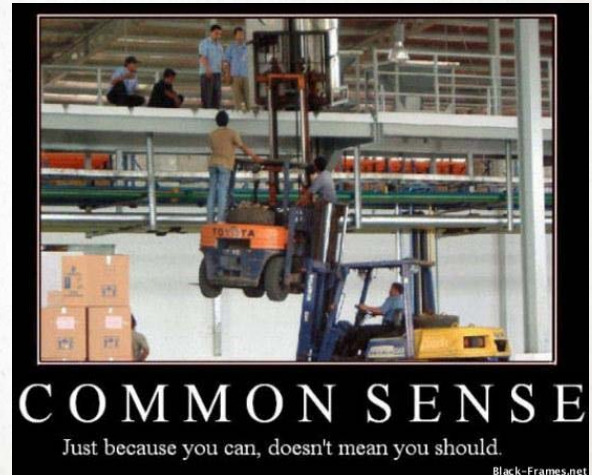
"Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report"

Government Auditing Standards 6.37

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CRITERIA: COMMON CONFUSION

- Auditor Opinion
- “Common” Sense



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CRITERIA: UCA EXAMPLE

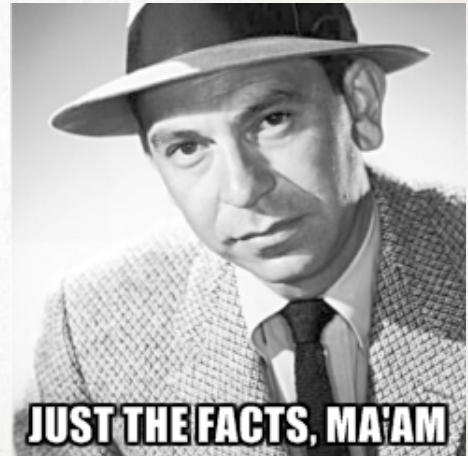
- “Accounting will match the receipts and credit card charge slips to the monthly credit card billing and make payment.”
 - UCA Policy 7.2.4
- “The statement must be reconciled against your Purchasing Card Log and the retained receipts for accuracy”
 - State Purchasing Card Policy 6.0

See A Performance Audit of UCA Financial Management and Transparency

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CONDITION: WHAT IS HAPPENING

- Actual Practices
- Layered and Documented
- Data Analysis
- Just the Facts



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CONDITION: WHAT IS HAPPENING

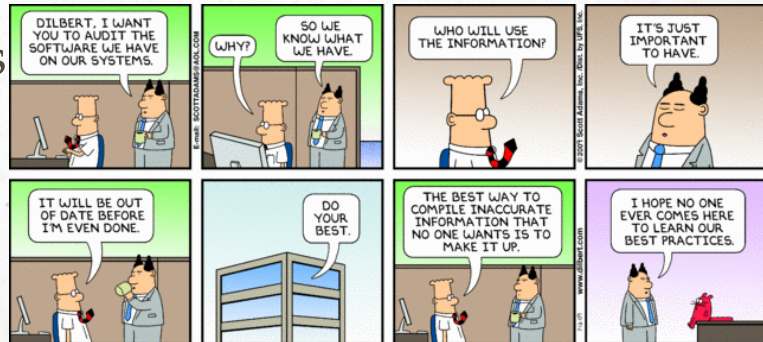
Condition: “A situation that exists, or an actual situation compared to criteria – the extent to which the criteria are achieved.”

Performance Auditing: A Measurement Approach, p. 38

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CONDITION: WHAT IS HAPPENING

- Test Results
- Ratios
- Observations
- Practices
- Procedures
- Surveys



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CONDITION: UCA EXAMPLE

- Only 55% of sampled credit card transactions received by accounting had receipts
- 8% of receipts had different information than the credit card statement

Transaction	Receipt Date	Statement Date	Merchant
A	04/13	04/31	The Home Depot
B	04/13	04/13	America's Best Vaule
C	06/25	06825	Crystal Inn Cedar

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EFFECT: WHY THE DEVIATION MATTERS

Effect: The actual or potential consequences of a condition that varies (either positively or negatively) from the criteria used in the audit.

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EFFECT: WHY THE DEVIATION MATTERS

- Impact or consequence
- Measure of significance
- Demonstrates the need for corrective action
- Could be “potential” effect (i.e., risk mitigation)

See *Government Auditing Standards* 6.77

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EFFECT: WHY THE DEVIATION MATTERS

- Potential cost savings
- Measure of inefficiency
- Risk to stakeholders
 - Financial
 - Public Safety
 - Inefficiency
 - Ineffectiveness
 - Legal
 - Etc.



See *Government Auditing Standards* 6.77

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EFFECT: WHY THE DEVIATION MATTERS

Effect is a statement of the impact of non-compliance or deviation with criteria. The effect of an audit finding should quantify the level of risk accepted by not adhering to criteria.

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EFFECT: UCA EXAMPLE

- Approximately **\$1 million** of questionable credit card purchases over 7 years
- Merchants included:
 - Nordstrom
 - PayPal
 - Victoria's Secret
 - Starbucks
 - State Liquor Store
 - Bellagio
 - Toys R Us
 - RC Willey
 - Harmons
 - Target

See *A Performance Audit of UCA Financial Management and Transparency*

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CAUSE: WHAT CREATED THE DEVIATION

"The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions."

Government Auditing Standards 6.76

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CAUSE: WHAT CREATED THE DEVIATION



Dilbert, Scott Adams

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CAUSE: WHAT CREATED THE DEVIATION

- Poorly designed policies
- Incomplete implementation of policies
- Poor oversight
- Inadequate controls
- Infrequent independent review

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CAUSE: UCA EXAMPLE

- UCA Board did not review UCA finances, as required in its bylaws
- UCA management did not require receipts for CC purchases
- UCA management did not authorize purchases, approve transactions, or enforce CC spending limits
- Only one employee had access to the CC account

See *A Performance Audit of UCA Financial Management and Transparency*

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RECOMMENDATION: WHAT SHOULD BE DONE

“Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.”

Government Auditing Standards, 7.29

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RECOMMENDATION: WHAT SHOULD BE DONE

- Efficiency and effectiveness are the goals

Therefore, recommendations should be:

- Realistic
- Useful
- Appropriate
- Logical
- Clear

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RECOMMENDATION: WHAT SHOULD BE DONE

We recommend that [responsible party] do...

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RECOMMENDATION: WHAT SHOULD BE DONE

“Conclusions are more compelling if they lead to the auditors’ recommendations and convince the knowledgeable user of the report that action is necessary.”

Government Auditing Standards 7.27

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RECOMMENDATION: UCA EXAMPLE

We recommend that

- The UCA Board oversee the implementation of internal controls that includes proper separation of duties, monthly reconciliation of credit card statements to receipts, and regular review of UCA finances.
- UCA management implement the individual transaction and monthly amount limits on credit card purchases, as required by UCA policy.

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RECOMMENDATION: UCA EXAMPLE

We recommend that UCA management:

- Cancel unassigned credit cards.
- Refrain from issuing unassigned credit cards or purchasing cards.
- Authorize and approve expenditures, as required by UCA policy.

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RECOMMENDATION: WHAT SHOULD BE DONE (EXAMPLE 1)

Vague: The property tax formula should be fixed.

Specific: We recommend that the Tax Commission adopt the statutorily-mandated property tax formula.

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RECOMMENDATION: WHAT SHOULD BE DONE (EXAMPLE 2)

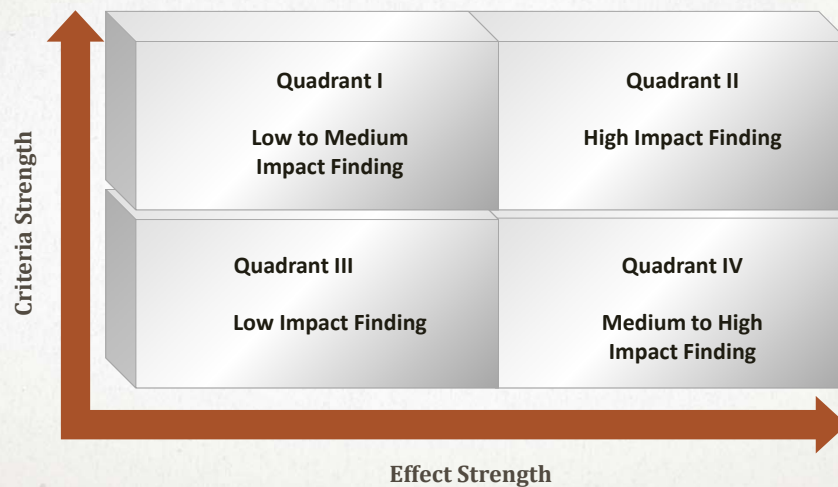
Vague: We recommend that the agency employees receive proper training to prevent fraud.

Specific:

- We recommend that the agency human resource director regularly report fraud prevention training to the executive director.
- We recommend that the executive director oversee sanctions for those who do not receive proper fraud prevention training.

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CRITERIA AND EFFECT



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CRITERIA AND EFFECT: QUADRANT I

- **Low to Medium Impact**
- Criteria = Statute or binding rule
- Effect = Minimal risk or potential for non-material cost savings or other risk aversion
- Example:* *Insufficient data limits full-scale review of Utah drug court effectiveness*

*See *A Performance Audit of Utah's Adult Felony Drug Courts*

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CRITERIA AND EFFECT: QUADRANT II

- **High Impact**
- Criteria = Statute or binding rule
- Effect = Control weakness that enables a material risk to continue
- Example:* *Registered sex offenders lived in two homes approved for child care*

*See *A Performance Audit of Sex Offender Access to Vulnerable Populations*

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CRITERIA AND EFFECT: QUADRANT III

- **Low Impact**
- Criteria = Best practices, expert opinion, etc.
- Effect = Minimal risk or potential for non-material cost savings or other risk aversion
- Example: ** Utah Universal Service Fund disbursements could quadruple by 2020*

*See A Limited Review of the Utah Universal Service Fund

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CRITERIA AND EFFECT: QUADRANT IV

- **Medium to High Impact**
- Criteria = Best practices, expert opinion, etc.
- Effect = Control weakness that enables a material risk to continue
- Example: *The DWS investigations unit does not effectively use data analytics to prioritize high risk recipient behavior*

*See A Performance Audit of Data Analytics Techniques to Detect SNAP Abuse

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QUESTIONS?



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