



Fiscal Management Council

Department of Audits and Accounts

Presentation May 27, 2014



Department of Audits and Accounts

- Fiscal Year 2013 Single Audit Report Summary
 - 191 organizational units made up the State of Georgia's reporting entity
 - 106 organizational units administered a total of 788 Federal programs
 - Total Federal expenditures were over \$21.8 billion
 - Five (5) organizational units account for over 70% of the State's Federal expenditures



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- Fiscal Year 2013 Single Audit Report Summary (cont.)
 - These five (5) organizations were:
 - Department of Community Health
 - Department of Education
 - Department of Human Resources
 - Department of Labor
 - Department of Transportation



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- Fiscal Year 2013 Single Audit Report Summary (cont.)
 - 42 Federal programs (or clusters of programs) were deemed to be major Federal programs
 - Expenditures for all 42 major Federal programs totaled over \$19.3 billion
 - This represented approximately 88% of the State's total Federal program expenditures



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- Fiscal Year 2013 Single Audit Report Summary (cont.)
 - A total of 50 audit findings were reported
 - 13 findings related to the Financial Statements
 - 37 findings related to Federal programs
 - 18 of the 42 major Federal programs received at least one finding
 - Of the 13 financial statement findings...
 - None were identified as material noncompliance
 - Only one (1) was identified as a material weakness
 - 12 were identified as significant deficiencies



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- Financial Statement Findings recap
 - A total of nine (9) control categories were impacted
 - These were...
 - (1) Accounting Controls (Overall)
 - (2) General Ledger
 - (3) Cash, Investments and Investment Related Activity
 - (4) Revenues and Receivables
 - (5) Capital Assets
 - (6) Expenses/Expenditures and Liabilities
 - (7) Equity and Financial Statement Reconciliations
 - (8) Financial Reporting and Disclosure
 - (9) Budget



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- Federal Award Findings recap
 - Nine (9) compliance requirements were impacted
 - These were...
 - (1) Activities Allowed or Unallowed
 - (2) Allowable Cost/Cost Principles
 - (3) Davis-Bacon
 - (4) Eligibility
 - (5) Matching, Level of Effort, Earmarking
 - (6) Procurement and Suspension and Debarment
 - (7) Reporting
 - (8) Subrecipient Monitoring
 - (9) Special Tests and Provisions



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- Federal Award Findings recap (cont.)
 - Two (2) were identified as material noncompliance
 - Six (6) were identified as material weaknesses
 - 31 were identified as significant deficiencies
 - Known questioned costs identified were \$242,275
 - With projected or likely questioned costs of over \$2.4 million



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- Status of Prior Year Findings
 - A total of 118 findings were reported for FY12
 - 69 (or 58%) were officially resolved in FY13
 - 31 (or 26%) remained unresolved or were partially resolved in FY13
 - The remaining 18 (or 16%) applied only to the 2012 fiscal year (i.e., budget finding related to the FY12 Appropriations Act) or were downgraded to either a written management letter comment or verbal exit conference comment



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- Updating the Status of Prior Year Findings
 - The same process and collection system as last year will be used again
 - On the form provided, you need to complete...
 - Status – Select one (1) of the five (5) status categories from the dropdown menu
 - Response – Comments relating to the status are required for each of the five (5) categories except Previously Corrective Action Implemented
 - Contact Information – For the official responsible for completing the corrective actions



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- Updating the Status of Prior Year Findings (cont.)
 - SAO will provide...
 - Account creation and login instructions for the system
 - Guidance on applying the status and responses required



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- Views of Officials/Corrective Action Plans
 - Will be using the same collection system as last year
 - Once a finding is approved in the system, the financial engagement contact receives an e-mail requesting the views of officials and a corrective action plan be prepared
 - Included in the e-mail is a link to a form within the system specifically for the finding
 - The form includes a link to guidance on preparing the Views of Officials and Corrective Action Plans



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- Views of Officials/Corrective Action Plans (cont.)
 - Using the form, you should...
 - Select whether or not you concur with the finding
 - Enter Views of Responsible Officials
 - A general response to the finding, conclusion and recommendation
 - Enter Corrective Action Plan
 - Action taken or planned to correct deficiencies
 - Enter the Estimated Completion Date as applicable
 - Enter your Contact Information



IT Audit Integration

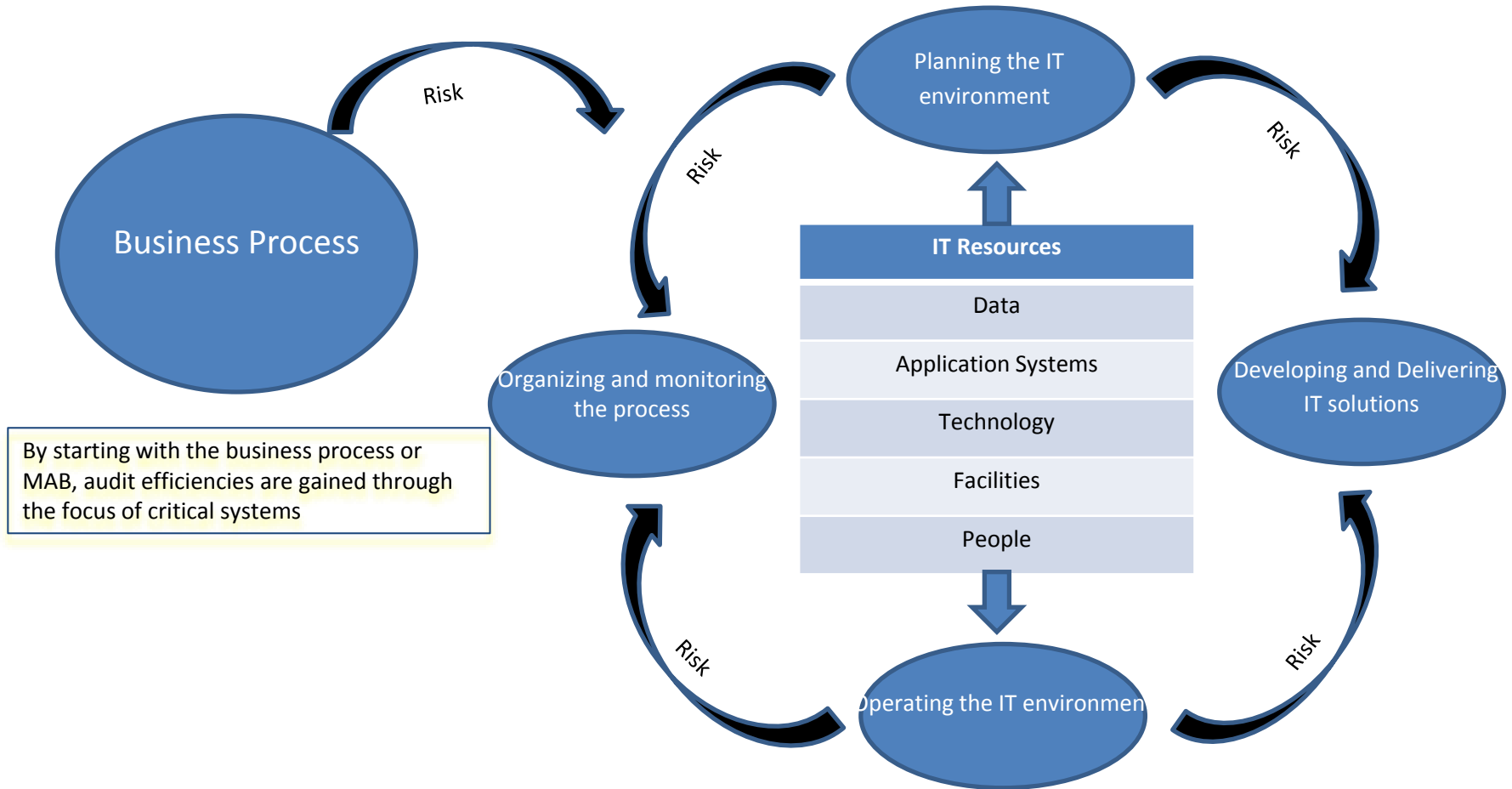


What is our strategy, focus and approach of IT integrated audits?



Applying top-down, risk-based approach to IT controls

- Our risk assessment approach can be illustrated as follows:

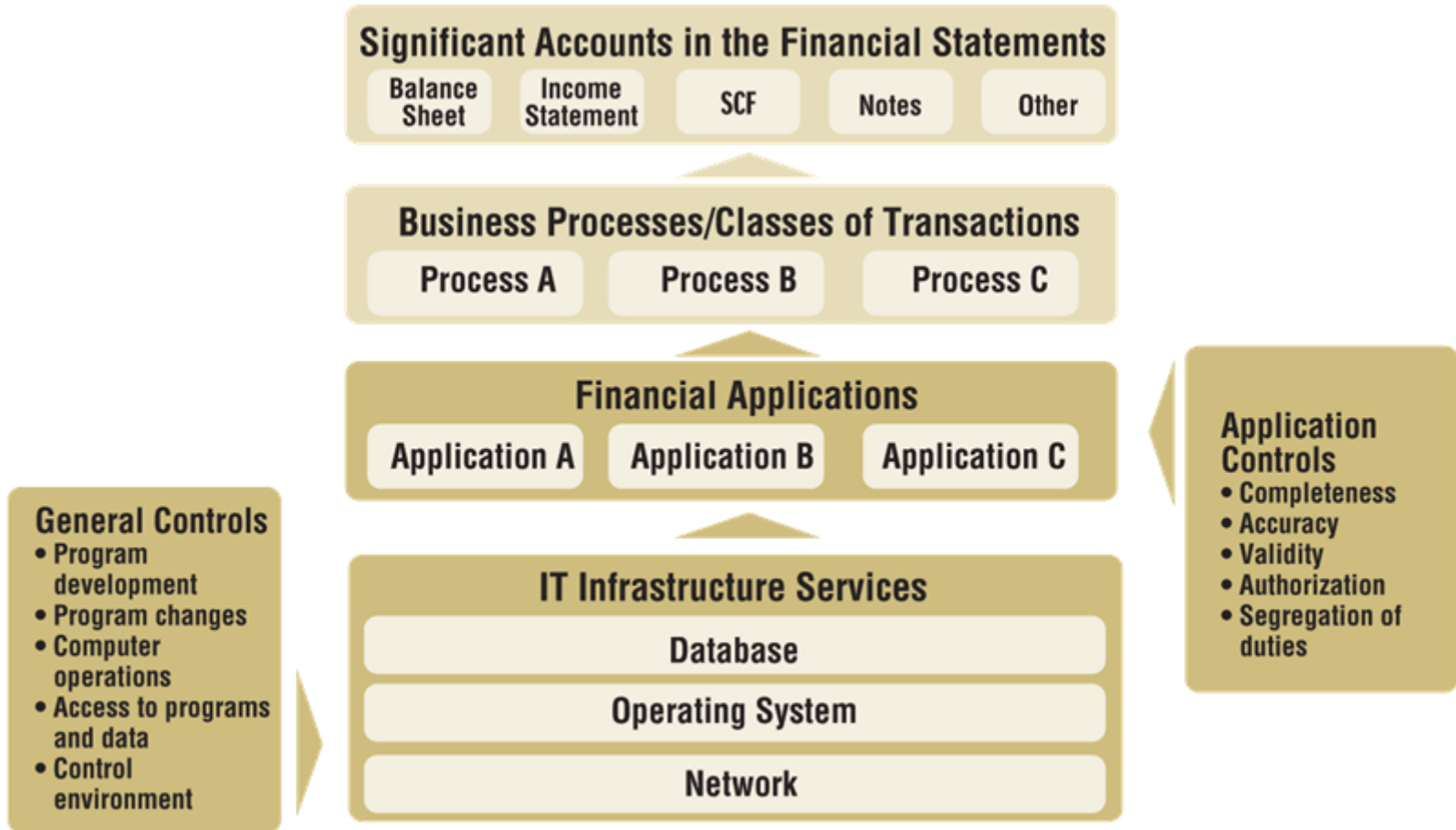




How do we scope in applications
and infrastructure?



IT environment





**Why are IT General Controls
(ITGCs) important to financial
auditor?**



IT General Controls (ITGCs)

- IT General Controls
 - Controls that apply to all systems component, processes, and data for a given organization or IT environment. They relate to managing change, logical access and do not operate at the individual transaction level





ITGC - Change Management

- Change Management(CM) Definition:
 - Process that provides for the analysis, implementation, and follow-up of all changes requested and made to the existing infrastructure
- Change Management (CM) Objective:
 - To provide reasonable assurance that only appropriately authorized, tested and approved changes are made to the applications, interfaces, databases and operating systems that support key application and IT dependent manual controls within significant processes.



ITGC – Logical Access

- Logical access (LA) Definition:
 - Process of safeguarding IT systems and resources against unauthorized use, modification, disclosure, or loss
- Logical access (LA) Objective:
 - To determine that only authorized persons have access to data and applications and that they can only perform specifically authorized functions . This includes reasonable assurance that adequate controls in place around adding, updating, deleting and restricting user access to key financial data and that access to that data is appropriately restricted at the operating system and database levels.



ITGC – IT Operations

- IT Operations (OP) Definition:
 - Process for determining that IT resources and applications continue to function as intended over time
- IT Operations (OP) Objective:
 - To provide reasonable assurance that the data supporting financial information is properly backed-up so such data can be accurately and completely recovered if there is a system outage or data integrity issue, that programs are executed as planned and deviations from scheduled processing are identified and resolved in a timely manner, and that IT operations problems or incidents are identified, resolved, reviewed, and analyzed in a timely manner.



Why do we audit ITGCs?

- ITGCs are controls that help ensure the continued functioning of application controls, IT-dependent manual controls, and EAE throughout the audit period. There is an assumption that an IT application will continue to function as programmed over time if the critical ITGCs are in place to ensure that happens.



What are common issues we may see?



What do we see with CM?

- Insufficient supporting documentation evidencing authorization, testing, and approval of changes
- Segregation of duty issues between development and production
- Lack of monitoring of application changes



What do we see with LA?

- Insufficient documentation supporting level of access granted to new users
- Terminated employees with continued access
- Privilege user access not limited
- General Security Settings not adequately configured
- Current user access not based on job responsibility
- Physical access to data center not limited
- Lack of recertification process



What do we see with OP?

- Inappropriate access to modify job schedules or back-ups
- Insufficient back-up and recovery process
- Lack of issue and resolution process



How do we report?



Reporting Formats

- Summary of Control Deficiencies (Deficiencies and Misstatements)
- Management Letter Comments
- Financial Audit Report Finding
- Single Audit Report Finding



Engagement Expectations



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- Engagement Expectations
 - Positive Relationships and Open Communication
 - This communication should make for a smoother and more efficient audit process
 - What can the auditee expect?
 - Clear explanation of the scope and objectives
 - Open and frequent communication
 - A chance to respond to all findings and have your response incorporated into the report
 - Treatment of confidential information provided to us at the same level of protection as your entity



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- Engagement Expectations (cont.)
 - What can the auditee expect? (cont.)
 - Entrance conference with an agenda addressing...
 - Management's & Auditor's responsibilities
 - Overview and timing of the engagement
 - Presence in the field
 - Communication protocol
 - Communication of requested items
 - Communication letters provided
 - Distribution of reports
 - Further entity concerns
 - Next steps



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- Engagement Expectations (cont.)
 - What can the auditee expect? (cont.)
 - Progress Meetings
 - Exit Discussion/Conference
 - Either a formal exit conference or an informal exit discussion based on the auditee's request
 - One (1) hardcopy and unlimited electronic copies of our report
 - Additional hardcopies upon request



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- Engagement Expectations (cont.)
 - What can we expect from the auditee?
 - Timely response to meeting requests
 - Timely and unhindered access to information and employees
 - Timely responses to findings and recommendations
 - Raising questions or concerns about issues we have identified and communicated to you before the findings are developed