

# PREVENTING & CLEARING AUDIT FINDINGS



**NMSBA Board Institute – February 10, 2018**

**Audrey Jaramillo, CPA, CFE**  
**Scott Eliason, CPA**



## SPEAKER BIO



WOMEN  
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Audrey J. Jaramillo, CPA, CFE has been serving federal, state, and local Governments, non-profits, and commercial entities for 20 years throughout NM and is Managing Partner of Jaramillo Accounting Group LLC (**JAG**). Audrey specializes in providing audit, fraud, and consulting services.

Audrey is passionate about public service and served eight years as a Board Member in the Moriarty-Edgewood School District and represented NM state-wide and Nationally as President & Master Board Member of NMSBA. This year, she has turned her focus to JAG in order to serve more clients, expanding the firm's fraud and consulting services.

Professionally, she leads in the AICPA's Taskforces on training Young CPAs and Scholarships, has spoken on various topics for the AICPA, NM AGA, NM ASBO, NM GFOA, NMSBA, NM State Auditor, and other organizations.



## SPEAKER BIO



Scott Eliason, CPA has been serving NM Governments for over 25 years and joined Jaramillo Accounting Group LLC (**JAG**) as Partner in 2014. Formerly as Partner at a regional firm and throughout his career in public accounting, Scott has specialized in the audits of Governments across the Southwestern United States. Scott delivers high quality, timely, friendly audit and consulting services to a variety of governmental entities throughout NM. He is an expert in analysis of financial data and fraud discovery.

Scott has trained on various governmental, accounting and auditing topics throughout the Southwest such as: GASB requirements, Leadership training, AICPA Clarity standards, Resolution of findings, Uniform Grant Guidance (UGG) and State Compliance testing, Preparation of Financial Statements, and State Law, Grants, and Budgetary Compliance.



# OBJECTIVES

- Learn the need for and the requirements related to Corrective Action Plans & Findings
- Discuss common practices & suggest keys to resolving findings
- Present real-life success stories and answer questions



# WHY ARE FINDINGS PRESENTED?

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1. AUDITORS ARE *REQUIRED* TO REPORT FINDINGS BY GOVERNMENT AUDITING STANDARDS (GAS), YELLOW BOOK, CHAPTER 6.42
2. CLEARLY DEVELOPED FINDINGS ASSIST MANAGEMENT OR OVERSIGHT OFFICIALS IN *UNDERSTANDING* THE NEED FOR TAKING CORRECTIVE ACTION
3. PROVIDING A DRAFT REPORT WITH FINDINGS FOR REVIEW AND COMMENT BY RESPONSIBLE OFFICIALS OF THE AUDITED ENTITY HELPS THE AUDITORS DEVELOP A REPORT THAT IS *FAIR, COMPLETE, AND OBJECTIVE*



## FINDING REQUIREMENTS FROM:

1. GOVERNMENT ACCOUNTABILITY OFFICE (GAO)  
GENERALLY ACCEPTED GOVERNMENTAL  
AUDITING STANDARDS (GAGAS)
2. FEDERAL UNIFORM GRANT GUIDANCE (UGG) & GRANTORS
3. NM STATE AUDITOR'S OFFICE (SAO)



# GAO/GAGAS REQUIREMENTS AUDITORS MUST REPORT:

1. SIGNIFICANT DEFICIENCIES OR MATERIAL WEAKNESSES IN INTERNAL CONTROL
2. INSTANCES OF FRAUD OR NONCOMPLIANCE WITH PROVISIONS OF LAWS AND REGULATIONS AND HAVE AN EFFECT ON THE AUDIT AND WARRANT THE ATTENTION OF THOSE CHARGED WITH GOVERNANCE
3. NONCOMPLIANCE WITH PROVISIONS OF CONTRACTS AND GRANT AGREEMENTS AND ABUSE (DEFINED ON THE NEXT SLIDE) THAT COULD HAVE A MATERIAL EFFECT ON THE AUDIT
4. COMPLIANCE AND INTERNAL CONTROLS
5. IF AUDITEES DO NOT TAKE CORRECTIVE ACTION TIMELY, AUDITORS ARE ALSO REQUIRED TO REPORT DIRECTLY TO THE FUNDING AGENCY (GAS CHAPTER 6.39B)



# GAO/GAGAS REQUIREMENTS

## ABUSE:

1. Involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.
2. Includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.
3. Does not necessarily involve fraud, or noncompliance with provisions of laws, regulations, contracts, and grant agreements.



# REPORTING CONFIDENTIAL OR SENSITIVE INFORMATION

1. Confidential or sensitive nature of the information eliminated
  - Auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary.” GAS Chapter 6.51
2. Classified or prohibited by other law
  - Auditors should disclose only to persons authorized by law or regulation to receive it. GAS Chapter 6.52
3. Public safety and security concerns that could be caused by the misuse of information. GAS Chapter 6.53



# FEDERAL UNIFORM GRANT GUIDANCE (UGG) & GRANTOR REQUIREMENTS

- Auditee must prepare Summary Schedule of Prior Audit Findings
- Auditor must follow up
- Disputes or Unresolved findings
- Known Questioned Costs > \$25,000
- Upon completion of the audit, **Auditee should complete a corrective action plan for each finding and the anticipated completion date**



## FEDERAL UNIFORM GRANT GUIDANCE (UGG) & GRANTOR REQUIREMENTS— CORRECTIVE ACTION PLANS

- At the completion of the audit, the auditee shall prepare a **corrective action plan** to address each audit finding included in the current year auditor's reports.
- The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date.
- If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and *specific* reasons.



# CORRECTIVE ACTION PLAN EXAMPLE

- In March 2018, ESA Administration reviewed all cases (24) cited in this audit. 19 cases were identified as having a potential error. CSD Headquarter staff reviewed these cases and determined 9 cases were acceptable and did not require additional work; 10 were returned to field staff for correction. The remaining 5 cases were for incorrect payments. For these 5, the Department will follow established rules and policies to determine the amount of overpayment.
- By April 30, 2018, ESA will work with the respective federal agencies to determine if the costs identified need to be adjusted or repaid.
- By July 2018, all staff responsible for issuing benefits will be re-trained on the proper calculation of retroactive payments. The training will focus on circumstances when a retroactive payment is indicated, allowed, and time limitations required by law.



## SAO REQUIREMENTS IN ADDITION TO GAGAS & UNIFORM GRANT GUIDANCE

- “Present everything”
  - Report all deficiencies in internal control
  - Immediately report fraud/abuse
  - All violations of provisions of laws, regulations, contracts, grant agreements and other matters must be reported
- “Non-negotiable”
  - Findings are not subject to negotiation
- No Management Letters
  - “Issuance of a separate management letter to an agency will be considered a violation of the terms of the audit contract and may result in further action by the State Auditor” (SAO Rule 2.2.2 .10)



## SAO REQUIREMENTS IN ADDITION TO GAGAS & UNIFORM GRANT GUIDANCE

- All findings must have a reference number such as **2009-1, 2010-3** and a short title that describes the finding. **Depending on what type of finding the auditor has determined the finding to be, the finding reference number should be followed by one of the following descriptions: material weakness; significant deficiency; or other. (SAO Rule 2.2.2.10 (I)(3)(a))**
- The timeframe for agencies to respond to audit findings is now **5 business days. (SAO Rule 2.2.2.10 (I)(3)(b))**
- Must now also include a finding for any **professional services contract related to fraud** that was not approved by the State Auditor.



# DEFINITION OF FINDINGS

**Control Deficiency:** the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner

- The auditor must evaluate the severity of each control deficiency that comes to his or her attention to determine whether the deficiencies, individually or in combination, are material weaknesses as of the date of management's assessment



# DEFINITION OF FINDINGS

**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

- Report on the nature and effect of those reported in the past and current year
- If discovered during an Audit, must be communicated in writing
- Remember, auditors are precluded from reporting “the auditor detected no significant deficiencies”



# DEFINITION OF FINDINGS

**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

- Report on the nature and effect of those reported in the past and current year
- If discovered during an Audit, must be communicated in writing



[HTTPS://WWW.SAONM.ORG/MEDIA/UPLOADS/FY  
16 FINDINGS REPORT AUG 2017 FINAL.PDF](https://www.saonm.org/media/uploads/fy16_findings_report_aug_2017_final.pdf)

OSA Report on Findings – All Governmental Entities in NM





# 7 POINTS TO A FINDING

## 1.) Condition: “*What is*”

- Should provide a description of an existing situation
- The number of instances found and the dollar amounts involved, if any, should be reported

### EXAMPLE:

The University exceeded its approved budget for the “Retirement of Indebtedness” category in the Unrestricted budget by \$6,125 and for the Independent Operations category of the Restricted budget by \$170,079.



# 7 POINTS TO A FINDING

## 2.) **Criteria:** *“What should be”*

- Should identify the desired or required state
- Should cite the specific section of law, regulation, ordinance, contract, or grant agreement if applicable
- Provides a context for evaluating evidence and understanding the findings

### EXAMPLE:

Per Title 5 of the New Mexico Administrative Code, Chapter 3, part 4, paragraph 10, total expenditures of certain budgetary totals may not exceed the amount in the approved budget.



# 7 POINTS TO A FINDING

## 3.) Cause: *“Why the deviation occurred”*

- Identifies the reason or explanation for the condition or the factors responsible for the difference between the existing situation and the required or desired state
- May also serve as a basis for recommendations for corrective actions
- The auditor’s job is to assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference

### EXAMPLE:

Budget Adjustment Reports submitted to the state were due in May and the University underestimated expenditures as of June 30, 2017.



# 7 POINTS TO A FINDING

4.) **Effect:** *“What happened or could happen because the condition differed from the criteria”*

- A clear, logical link to establish the impact or potential impact of the difference between the condition and the criteria
- Demonstrates the need for corrective action

## EXAMPLE:

The University has not complied with budgetary compliance requirements for the “Retirement of Indebtedness” and “Independent Operations” budget categories as presented in the Budget Comparison schedule in the financial statements. The University overspent funds allocated without approval.



# 7 POINTS TO A FINDING

## 5.) **Recommendation:** *“What is needed to correct the condition and improve operations”*

- GAGAS 7.23 advises that "recommendations are most constructive when they are directed as resolving the cause of identified problems, are action oriented and specific, are addressed to parties that have the authority to act, are feasible, and to the extent practical, are cost-effective"
- Should address each condition and cause and have a corresponding response

### EXAMPLE:

We recommend the University regularly monitor budget and actual expenditures to avoid over expenditures.



## 7 POINTS TO A FINDING

6.) **Management Response:** “Including the **Views of responsible officials** results in a report that presents *not only* the auditor’s findings, conclusions, and recommendations, *but also* the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. ” GAS Chapter 6.45

- Should address each condition and cause and have a corresponding response

### EXAMPLE:

The University agrees with the finding and has implemented additional controls in the Budget Department over the budgeting process as of November 30, 2017 to ensure compliance with budgetary level of control.



# 7 POINTS TO A FINDING

7.) **Disagreement:** “If there is disagreement regarding a finding, the Auditor must include a response to the management response.”  
GAS Chapter 6.45

- Inconsistencies and conflicts should be addressed during the audit
- Auditor and Auditee should agree on the comments
- Auditor must explain their reasons for disagreement or revise their report if they do agree



## TIMING OF MANAGEMENT RESPONSES

- “If the entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the entity.
- In such cases, the auditors should indicate in the report that the audited entity did not provide comments.” GAS Chapter 6.50



# CORRECTIVE ACTION PLAN – MUST BE UPLOADED WITH FEDERAL DATA COLLECTION FORM

**Corrective action** means action taken by the auditee that:

- (1) Corrects identified deficiencies;
- (2) Produces recommended improvements; or
- (3) Demonstrates that audit findings are either invalid or do not warrant auditee action.



## RECOMMENDED ELEMENTS OF A CORRECTIVE ACTION PLAN

- Method of implementation
- Responsible person title, department
- Expected completion date of implementation
- Subsequent Follow-up by management to ensure corrective action working as designed
- Internal audit assistance
- Internal tracking system



# KEYS TO CLEARING FINDINGS

- **AUDIT COMMITTEE (BY STATUTE)**
- Retain staffing/Low turnover
- Commitment
- Tone at Top
- Address problems throughout the year
- Clean up TBs
- Clean up SEFA



# KEYS TO CLEARING FINDINGS

- Determine responsibilities
- Enlist help of auditors/contractors
- Assess risks
- Monitor key controls
- Problem areas
- Cycle policies and procedures



# KEYS TO CLEARING FINDINGS

- Training
- Resources
- Legislation
- Perseverance - MEETINGS
- **ACCOUNTABILITY**



# REAL LIFE EXAMPLE

## ERB – EDUCATIONAL RETIREMENT BOARD

- On time audits starting in 2008
- Substantial reduction in audit findings
  - 2007 – 5 significant deficiencies and 4 state auditor findings
  - 2010 – 1 significant deficiency and 1 state auditor finding
- Modified Internal Control Structure
- Executive Management Team set expectations
- Frequent meetings between auditor and auditee
- Rebuilding of accounting department skills through training
- Use of milestones schedules and prepared by client list
- Began producing CAFR



# REAL LIFE EXAMPLE

## DPS – DEPARTMENT OF PUBLIC SAFETY

- On-time audits 2009-2010
- Cleared findings 23 in 2008 to 6 in 2010
- Cleared Single Audit Qualification in 2009
- Cleaned up TBs each year
- Reorganized department as needed
- Bureau Chief's accepted responsibility
  - Ownership of PBC listing
- Secretary's office set higher expectations
- Year round communication with JAG



# REAL LIFE EXAMPLE

## DOT – DEPARTMENT OF TRANSPORTATION

- Commission accountability
- Cleared 14/18 findings
- 1<sup>st</sup> On-time audit in many years
- Prepared the financial statements
- Milestones developed
- Worked long hours
- Track findings throughout the year
- Timeline, weekly status meetings
- Utilized contract services
- Commitment of Controller's Office



# CONTACT INFORMATION

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