

RISK-BASED AUDIT PILOT

NCBC/FCCA CONFERENCE

AOUSC OFFICE OF AUDIT

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WHY CONSIDER CHANGES TO THE CYCLICAL AUDIT PROGRAM?

- ❑ Need to consider improvements that would increase quality and effectiveness of audit
- ❑ Internal and external factors have resulted in changes to the current environment,
 - Has the audit program adapted in order to continue to provide meaningful results?
- ❑ “Risk perspective” - audits should provide reasonable assurance that risk in significant activities or systems is being managed
- ❑ Goal 7.1b of the *Strategic Plan for the Federal Judiciary*:
 - *Ensure the integrity of funds, information, operations and programs through strengthened internal controls and audit programs*

OVERVIEW OF RISK-BASED AUDIT APPROACH

- ❑ Assess each court's processes and the risk of material misstatement and/or significant non-compliance with applicable laws and regulations and the *Guide to Judiciary Policy*
- ❑ Use the risk assessment to determine areas subject to audit and the nature, timing, and extent of audit procedures
- ❑ For areas determined to have more risk, more extensive audit procedures are required
- ❑ For areas determined to have less risk, less extensive audit procedures are required

RISK-BASED FINANCIAL AUDIT APPROACH – GENERAL AND APPLICATION CONTROLS

- ❑ IT general controls are broad controls that address the entire organization's IT infrastructure.
 - Audits of IT general controls will focus on an overall assessment of the controls that are present in the court unit environment regarding financial and related information systems.

- ❑ IT application controls address the transactions and data unique to each IT system.
 - Audits of IT application controls will target the internal controls specific to software applications critical to financial reporting (e.g. accounting, time and attendance) and the associated data.

PILOT PARTICIPANTS

- ❑ Participating court units and federal public defender organizations were told to expect:
 - Audit procedures performed in areas that have not been audited in the past (e.g. Time and attendance)
 - Testing of general and application internal controls for IT systems that are related to financial reporting
 - Recommendations in areas for which issues had never been identified in past audits
 - Audit procedures performed in areas not currently covered in Vol. 11 of the *Guide to Judiciary Policy*

PILOT PARTICIPANTS (CONT.)

- ❑ Possible changes to the *Guide to Judiciary Policy*

- ❑ Identification of areas susceptible to risk of:
 - misstatement;
 - non-compliance with laws and regulations; and
 - fraud, waste or abuse

HOW DID WE TEST THIS APPROACH?

☐ Risk-Based Audit Pilots

- Participating courts selected on a volunteer basis following consultation with the Office of Audit
- Pilot audits were conducted for each type of court/court unit
- The pilot audit satisfied the cyclical audit requirement for that court/court unit

RISK-BASED PILOT AUDITS

- ❑ An independent audit firm was engaged to perform:
 - Financial statement audits over the court-prepared financial statements; and,
 - Performance audits of certain financial transactions that are not included in the financial statements, but determined to be of importance

RISK-BASED PILOT AUDIT (CONT.)

- ❑ Financial Statement Audit:
 - Purpose was to provide an opinion about whether an entity's financial statements are presented fairly in all material respects in accordance with the applicable financial reporting framework.
 - The financial statement audits were performed in accordance with auditing standard generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

RISK BASED PILOT AUDIT (CONT.)

□ Performance Audit

- Purpose was to address audit objectives over the areas not in scope for the financial statement audit but determined to be of importance to the AOUSC.
- The performance audits were conducted in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT SCOPE – FINANCIAL STATEMENT AUDIT - IT

- ❑ Reviewed the integrity and security of the following financial management systems:
 - Court Financial Accounting System for Tomorrow (FAS₄T)
 - Financial Systems (FinSys) or Judiciary Financial System (JFinSys)

- ❑ Audit procedures performed over the following areas:
 - Local configuration
 - Access controls
 - Segregation of duties

AUDIT RESULTS

- ❑ Some recommendations for AOUSC consideration and action
- ❑ Some recommendations for court consideration and action

SUMMARY OF FINDINGS – AOUSC LEVEL

- ❑ The following findings have been provided to the AOUSC for any necessary changes to the *Guide to Judiciary Policy*

Audit Area	Example of Finding	Policy Implications
Disbursements	Obligations are not recorded timely	Policy regarding the recording of obligations may not be clear
Property	Master Personal Property Record (MPPR) does not contain all elements as required by the <i>Guide to Judiciary Policy</i>	Policy may not consider limitations in courts ability to track and record accountable property (e.g. acquisition records beyond record retention period)
Payroll	Timesheets for Chamber Staff are not being reviewed in accordance with the <i>Guide to Judiciary Policy</i>	Current policy may not reflect historical “exception-based pay” practices
IT	Access Controls for JFinSys are not designed and implemented	Need for comprehensive policy and guidance for a “national” system.
Fund Control	Insufficient recording of obligations in the general ledger	Policy regarding the recording of obligations may not be consistent with relevant laws or regulations

SUMMARY OF FINDINGS – COURT LEVEL FINDINGS

Audit Area	Example of Finding Description
Disbursements	Segregation of Duties between Contracting Officer and Disbursing Officer; invoices not properly approved
Receipts	Documentation of the reconciliation of receipts and the statement of differences was not maintained.
Payroll	Timesheets not approved in accordance with the Guide to Judiciary Policy; Annual leave and lump sum leave payments were not properly reviewed or calculated.
Funds Control	Unliquidated obligations were not timely deobligated; maintaining documentation to support reviewed and approved budget deprogrammings was not maintained.
CJA Payments	CJA voucher payments were not reviewed and approved in accordance with the <i>Guide to Judiciary Policy</i> .
Management Controls	Annual Internal Control Evaluations were not performed in accordance with the <i>Guide to Judiciary Policy</i> .
Financial Reporting	The monthly Summary Statement of Accountability and Transactions was not reviewed in accordance with the <i>Guide to Judiciary Policy</i> .

SUMMARY OF FINDINGS – COURT LEVEL FINDINGS IT

Audit Area	Finding Description
IT	FAS4T Security Reports were not reviewed as required by the FAS4T/CR Security Manual.
	FAS4T password configurations were not in compliance with the FAS4T/CR security manual requirements.
	Separated employee was not timely removed from the FAS4T
	Lack of FAS4T Segregation of Duties Review
	FAS4T user access was not removed when access levels were no longer required for their job responsibilities.
	FAS4T new users authorization documentation was not maintained.

PILOT WRAP-UP

- ❑ Following the issuance of the Notice of Findings and Recommendations (NFR)s, the AO began analyzing all audit issues
- ❑ The Office of Audit conducted a series of meetings with relevant AO program offices to communicate national policy issues that were identified and discuss their impact
- ❑ Debrief meetings were conducted to gather feedback from each of the participating court units on their overall impressions, experiences and concerns regarding audit issues and the audit process

LESSONS LEARNED

- ❑ Court units encountered challenges in their ability to provide supporting documentation for some areas under audit
- ❑ Financial reporting requirements are not fully understood in the following areas:
 - Preparation and presentation of financial reports (statements)
 - Recording and liquidating of obligations
 - Recording accruals
 - Recording and tracking property
- ❑ Differences in perceptions of risk
- ❑ Current transaction and oversight requirements in the *Guide to Judiciary Policy* may not reflect management's perception of risks
 - e.g., requirement for acquisition date and amount on all inventory items, including purchases of furniture that pre-date inventory management systems

LESSONS LEARNED (CONT.)

- ❑ Key financial systems may not currently meet the needs of the court units:
 - Some courts units lack access to financial reports and do not have the ability to extract financial data
 - Some courts lack reports that would allow for the analysis of financial data by court financial management in order to facilitate management decision-making

- ❑ Some potential weaknesses in the judiciary's current audit process must be considered:
 - May not be inclusive of all financial-related processes and transactions that present risk
 - Transaction population samples might not capture all types of receipts/disbursements
 - Audit opinions do not currently encompass all relevant court units
 - Audit procedures over the financial statements of district courts appear to exclude transactions of certain other units the court made disbursements for, such as court of appeals and other circuit units

PREREQUISITES FOR FUTURE AUDIT PILOTS

- AOUSC completion of updates to the *Guide to Judiciary Policy*
- Enhanced guidance to courts and federal public defender organizations about significant processes
- JIFMS implementation and policy development
- Account for changes in financial reporting responsibilities
- Implementation of necessary changes to the existing audit process