



Department of Finance and Administration – Continuing Professional Education

January 27, 2009



Agenda

- 8:30 Welcome & Introduction
- 8:45 ARRA
- 10:45 Break
- 11:00 Changes in Single Audit and Impact on Management
- 12:00 Lunch
- 1:00 Remediation of Material Weaknesses and Significant Deficiencies
- 2:00 The Many Faces of Fraud
- 3:05 Break
- 3:20 How much value are you getting from performance measures?
- 4:20 Questions, Conclusion and Discussion
- 4:45 Go Home

Welcome & Introduction to Crowe

Founded in 1942 in South Bend, Ind., Crowe Horwath LLP is one of the largest public **accounting** and **consulting** firms in the United States.

Crowe currently has **27 offices** in the United States and is the leading independent member of Crowe Horwath International, a global network of accounting and management consulting firms.

We have a long history of working collaboratively with state and local government, and we take pride in the **relationships** that we build and maintain with our clients.



Today's Speakers



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Today's Speakers



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AMERICAN RECOVERY & REINVESTMENT ACT (ARRA) OVERVIEW & REPORTING REQUIREMENTS

ARRA Summary

The targeted areas are:

- Clean, efficient energy
- Transforming our economy with science and technology
- Modernizing roads, bridges, transit and waterways
- Education
- Tax cuts to make work pay and create jobs
- Lowering Healthcare costs
- Helping workers hurt by the economy

ARRA – Impact Going Forward

- Some June 30, 2009, audits impacted
- Bigger impact likely on June 30, 2010 audits
- Consideration of changes that could impact major program determination process

ARRA Guidance

- Read the Initial Implementing Guidance at (issued February 18, 2009):

<http://www.recovery.gov/files/Initial%20Recovery%20Act%20Implementing%20Guidance.pdf>

Also see GAQC Alert #106

- Read follow-up OMB Implementing Guidance at (issued April 3, 2009):

<http://www.recovery.gov/sites/default/files/m09-15.pdf>

ARRA Guidance

- OMB issued new additional ARRA guidance relating to data quality and reporting job estimates on December 18, 2009, in a two part memorandum.

http://www.whitehouse.gov/omb/assets/memoranda_2010/m10-08.pdf

- The Recipient Reporting Data Model, Supplement 2, has also been updated to align with changes included in the new guidance.

http://www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-21-supp2.pdf

ARRA Guidance

- Part 1 of the memorandum provides guidance to federal agencies to improve the quality of data reported under Section 1512 of the ARRA.
- Part 2 of the memorandum makes two important changes concerning the manner in which job estimates are calculated and reported.

ARRA Guidance

- The Government Accountability Office (GAO) issued its fourth bimonthly report related to the use of ARRA funds by states and localities. The report, *Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability* is available at:

<http://www.gao.gov/products/GAO-10-231>

Key Points

- Federal agencies are required to specifically identify ARRA awards
- Recipients must maintain records that identify the source and application of ARRA funds
- Recipients must identify to each sub recipient the Federal award number, CFDA number and amount of ARRA funds
- Information must be documented at the time of award and disbursement

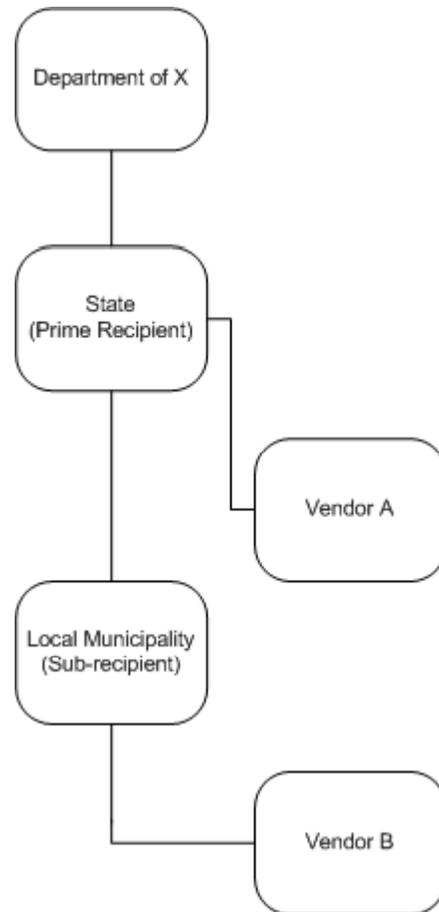
Reporting

- Section 1512 of the ARRA bill lists the reporting requirements
- Who is required to report?
 - Prime recipients who receive Recovery Act funds
 - Prime recipients may delegate certain reporting responsibilities to “first-tier” subrecipients
 - Received more than \$25,000

Basic Principles and Requirements

- What reporting is required under Section 1512?
 - Total amount of funds received; and of that, the amount spent on projects and activities
 - A list of projects and activities funded by name to include:
 - Description
 - Completion status
 - Estimates on jobs created or retained;
 - Details on sub-awards and other payments

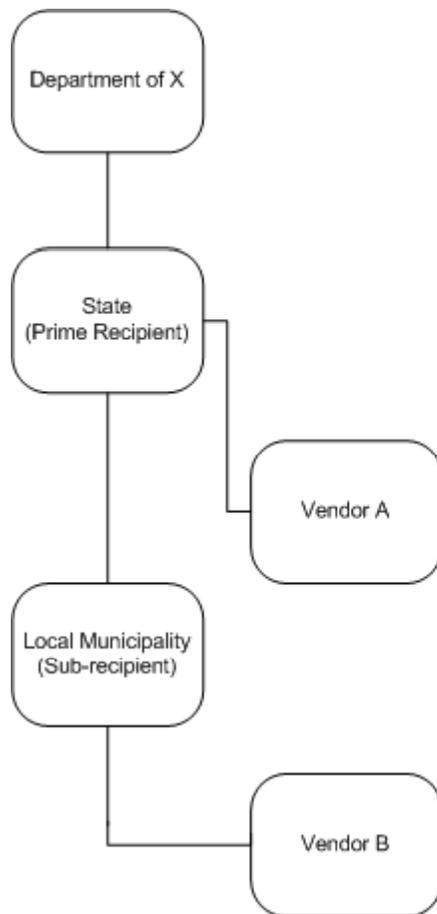
Basic Principles and Requirements



● Prime Recipient:

- Federal Funding Agency Name
- Award Identification
- Recipient D-U-N-S
- Parent D-U-N-S
- Recipient CCR information
- CFDA number, if applicable
- Recipient account number
- Project/grant period
- Award type, date, description, and amount
- Amount of ARRA funds expended to projects/activities
- Activity code and description
- Project description and status
- Job creation narrative and number
- Infrastructure expenditures and rationale, if applicable
- Recipient primary place of performance
- Recipient area of benefit
- Recipient officer names and compensation (Top 5)
- Total number and amount of sub-awards: less than \$25,000

Basic Principles and Requirements

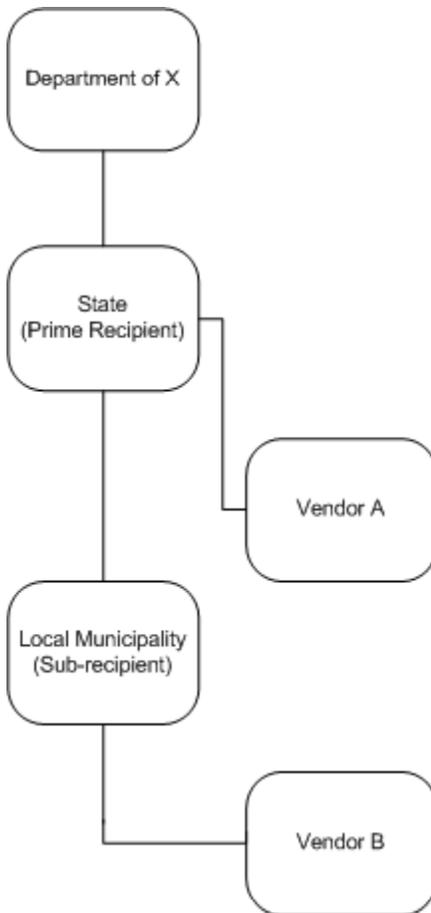


* Prime recipient reports
unless delegated to sub-recipient

● **Sub-Recipient Basic Requirements** (also referred to as FFATA Data Elements):

- Sub-recipient D-U-N-S
- Sub-recipient CCR information
- Sub-recipient type
- Amount received by sub-recipient
- Amount awarded to sub-recipient
- Sub-award date
- Sub-award period
- Sub-recipient place of performance
- Sub-recipient area of benefit
- Sub-recipient officer names and compensation (Top 5)

Basic Principles and Requirements

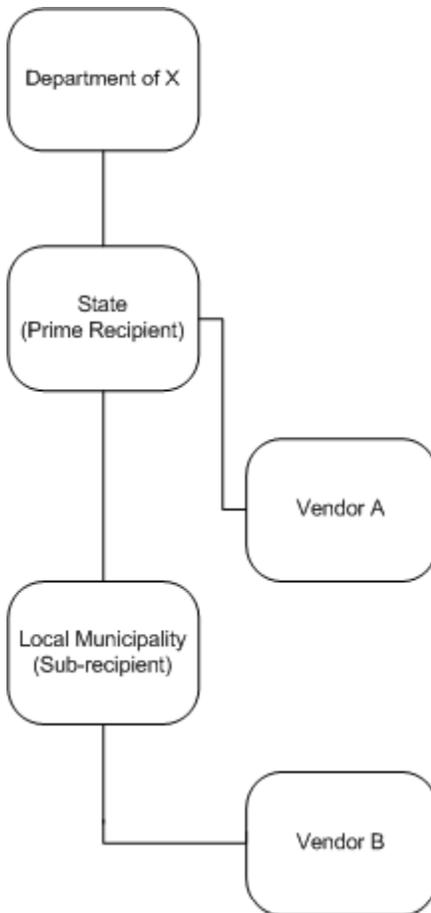


* Prime recipient reports

Recipient Vendor Basic Requirements

- D-U-N-S or Name and zip code of Headquarters (HQ)
- Expenditure amount
- Expenditure description

Basic Principles and Requirements

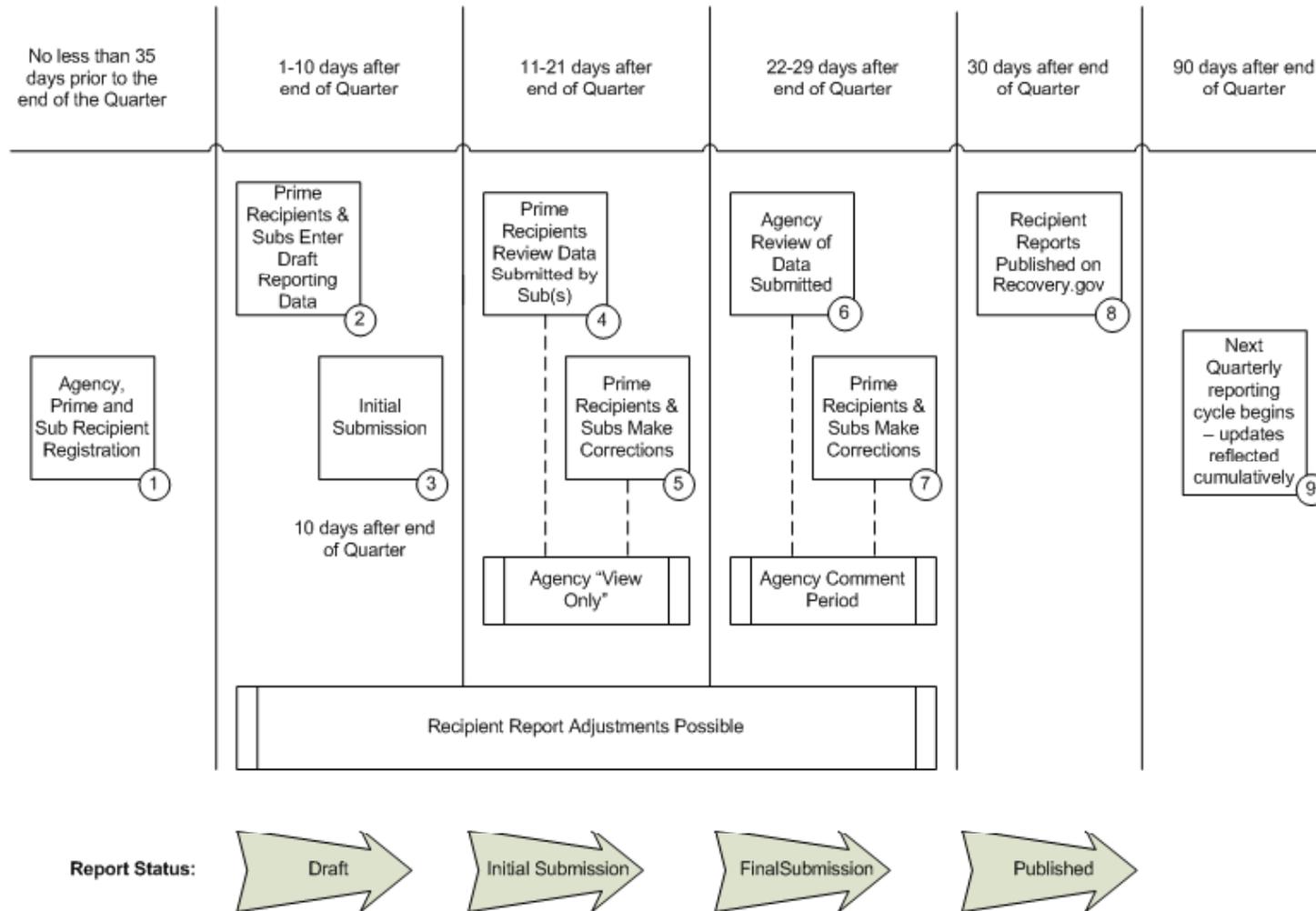


* Prime recipient reports unless delegated to sub-recipient

Sub-Recipient Vendor Basic Requirements

- D-U-N-S or Name and zip code of Headquarters (HQ)

Inbound Recipient Reporting (FederalReporting.gov) Timeline and Activities



CFDA Numbers

- Many ARRA awards will have new CFDA numbers even though they have the same grant name as a current grant
- CFDA numbers may not be different. New CFDA numbers were not required to be changed

CFDA Numbers

- Use most updated matrix available – June 2009 is for fiscal years beginning after June 30, 2008
- This matrix contains:
 - New ARRA funded programs
 - New clusters resulting from addition of ARRA programs
 - Pre-existing programs to which ARRA funding has been added

Identification of Awards

- Expenditures of Federal awards must be separately identified on the Schedule of Expenditures of Federal Awards (SEFA)
- Expenditures of Federal awards must be separately identified on the Data Collection Form
- ARRA funds need to be separately identified and tracked

Example Data Collection Form

PART III		FEDERAL PROGRAMS - Continued			
9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR					
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	
Federal Agency Prefix ¹ (a)	Extension ² (b)				
9	3	568	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Foster Care	\$ 11,000,000.00
9	3	568	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ARRA - Foster Care	\$ 1,099,000.00
9	3	999	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ARRA - Bovines	\$ 7,567,543.00

Major Program Determination

- Due to the inherent risk with the new transparency and accountability requirements for expenditures of ARRA awards, all Federal programs with expenditures of ARRA awards are programs of higher risk

Major Program Determination

- Accordingly, when performing the risk based approach, Type A programs with expenditures of ARRA awards should not be considered low risk except when the auditor determines, and clearly documents, that the expenditures of ARRA awards are low-risk for the program

Major Program Determination

- Any Federal program that is now receiving ARRA money should be considered a new program and will not qualify as low-risk
- If it was audited last year, but in the current year received ARRA funding, it must be audited again – cannot be “rolled”

Major Program Determination

- Can a Type A program with one CFDA # for both Recovery Act and non-Recovery Act funds be low risk?
 - While de minimus levels of Recovery Act expenditures in the current year may be a quantitative factor indicating low risk, anticipated large funding increases in subsequent periods would be a strong qualitative factor that would not support low-risk

Major Program Determination

- High Risk programs are: ARRA funds and Medicaid Cluster

Compliance Supplement

- OMB releases a compliance supplement annually to update audit requirements and guidance
- The release dated “March 2009” did not have compliance requirements unique to ARRA
- **Non-static Compliance Supplement**
- 2009 Compliance Supplement Addendum #1
 - Issued August 2009
 - Effective for June 30, 2009

Addendum #1 (Part III)

- Activities Allowed or Unallowed: Adds a new unallowable activity to ensure ARRA monies are not used for any casino or other gambling establishment, aquarium, zoo, golf course or swimming pool
- Davis Bacon Act: Includes the ARRA and related OMB Implementing guidance as a source for requirements
- Procurement and Suspension and Debarment: Adds a new objective to determine:
 - Whether an award includes Buy-American
 - Compliance with Buy-American ARRA provisions
 - If any waivers have been granted

Addendum #1 (Part III, continued)

- Subrecipient Monitoring: Adds a new audit objective to determine if the subrecipient has communicated to their first-tier subrecipients the requirement to register in the Central Contractor Registration
- Three (3) New special tests and provisions:
 - Separate accountability for ARRA funding
 - Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection (DCF) presentation requirements
 - Requirements for the prime recipient to identify for their subrecipient:
 - Federal awards and CFDA numbers
 - The amount of ARRA funds
 - SEFA and DCF presentation requirements

Addendum #1 (Part IV)

- The agencies that have included new programs:
 - Education
 - Housing and Urban Development
 - Environmental Protection Agency
 - Homeland Security
 - Department of Labor
- Health and Human Services did not include any new programs

Compliance – Addendum Update

- Cluster Changes
 - Identifies cluster changes due to the Recovery Act
 - Clarifies treatment of Federal Pell Grant and Federal Work Study:
 - Disbursements were made without separate identification during FY09
 - Report under the Student Financial Aid Cluster

Addendum #1 (Part V and VI)

- Identifies cluster changes due to ARRA
- Auditors are encouraged to promptly inform management of identified control deficiencies related to ARRA funding
- Entities receiving ARRA funds may face a material increase in resources needed to:
 - Properly manage ARRA
 - Monitor and account for federal awards
 - Effectively operate related internal controls
- Auditors should consider “capacity” issues as part of internal controls considerations

ARRA – Key Points: Internal Control

- Are control procedures in place over federal expenditures appropriate, working properly, and designed to prevent unallowable expenditures?
- Will additional controls and system requirements be needed to ensure ARRA funds are separately identified and tracked?
- Are new controls needed to meet the stringent reporting requirements?
- If ARRA funds will be passed down to subrecipients, are controls in place to ensure appropriate subrecipient monitoring? Will new controls be needed related to new subrecipient reporting responsibilities?

CFDA.GOV

- Should NOT be relied upon for determination of inclusion of program or SEFA

Reporting

- Section 1512 of the ARRA bill lists the reporting requirements
 - Must be done quarterly, 10 days after quarter ends
(Addendum 1 clarified that Section 1512 was not applicable for audit periods with ending dates in June, July, and August of 2009)
 - Report at: FederalReporting.gov
 - Items required to be reported:
 - Amount received
 - Projects and Activities (description, completion status, jobs created/retained)
 - Sub-award details
 - Vendors

Reporting

- First statutory reporting deadline was for the period ending September 30, 2009
 - Should have included all activity from award date to September 30, 2009
- Was due to the Federal awarding agency by October 10, 2009

Reporting

- Recipients are required to report for themselves and their “first tier” subrecipients
 - First tier subrecipients are those that receive an award directly from a recipient
- Recipient can delegate to the subrecipient some of the reporting information
- No waivers to meeting reporting deadlines

Reporting

- Student Financial Aid – Work Study:
 - Required to do the quarterly reporting if received ARRA
 - Related to the 2009-2010 award year
 - Listing released showing each school, their award amounts and the ARRA portion

SEFA – Build America Bonds

- Build America Bonds should not be presented on the SEFA and should not be included in the scope of the single audit.
- The BAB program was created to assist governments in financing capital projects at lower borrowing costs and to stimulate the economy and create jobs. Taxable bonds are issued to finance any capital expenditures for which they could otherwise have issued tax-exempt governmental bonds.

SEFA – Build America Bonds

- A direct federal subsidy payment for a portion of their borrowing costs on the BABs equal to 35 percent of the total coupon interest is paid to the government.
- The government is responsible for paying the entire interest payment to the lender

Single Audit Reporting Packages

- For single audit reports after September 30, 2009, **all** single audit reports will be displayed on the Federal Audit Clearinghouse website
- Review findings for private information
- 1 out of every 200 reports had information that should be removed

Deadline

- The current single audit deadline is nine months after year-end
- It has been proposed that the deadline be moved to six months after year-end

JOBS REPORTING

Jobs: Background and Definitions

- Recipients must report estimates of jobs directly created or retained by Recovery funded projects and activities
- Recipients report on projects wholly and partly funded by Recovery Act
- Aggregate job estimates are reported in numeric and narrative form
- Narrative includes types of jobs created or retained
- Descriptions can rely on job titles, broad labor categories or recipient's existing practice for describing jobs as long as terms are widely understood
- Numeric estimate of FTEs

Job Reporting– Created vs. Retained

- **Job Created – Defined as new position created and filled or existing unfilled position that has been filled as direct result of Recovery funding**
- **Job Retained – Defined as an existing position that would not have been continued to be filled without Recovery funding Recipients must distinguish between created and retained.**
 - Job cannot be counted as both created and retained
 - Jobs retained and created are reported in aggregate

Job Reporting – Calculation

- Recipients will report job estimates on a quarterly basis
- OMB guidance requires estimates to be reported as ‘full-time equivalents’ (FTE)
- How to calculate jobs funded by Recovery:
 - Determine the total number of hours worked by an employee in a Recovery Act job for the quarter. Divide the Total Hours by the quarterly hours in a full-time schedule.
 - If a full-time schedule is 40 hours a week, multiply 40 hours x 52 weeks = 2,080 Total Hours per year.
 - Divide 2,080 Total Hours by 4 to equal 520 quarterly hours.

Job Reporting – Calculation

- Example:
 - If two full-time employees each worked 520 hours (1,040 hours) for the quarter and another half-time employee worked 260 hours, the Total Hours for the three employees is 1300 ($520 + 520 + 260 = 1300$).
 - Divide 1300 by 520 to equal 2.5 jobs created or saved.
 - FTE is calculated as total hours worked in jobs created or retained divided by the number of hours in a full time schedule.
 - Converts part-time or temporary jobs into FTEs
 - Charges to sponsored projects are applicable, i.e., individual charging 50% effort to ARRA funded project counts as .5 FTE

Job Reporting – Excluded Information

- Recipients should not report indirect or induced jobs, or employees not directly charged to Recovery Act supported projects/activities
 - Clerical Admin Staff
 - Institutional review board staff members
 - Departmental administrators
 - Brick layers if ARRA only paid for the bricks
- Only direct jobs are to be reported due to possible insufficient insight or inconsistent methodologies to report indirect or induced jobs

Job Reporting - Data Collection

- Prime Recipient will collect job estimates from subrecipients and vendors
 - Prime recipient requirements should be communicated to subrecipients and vendors
 - Guidance should be developed to establish a methodology
 - Templates should be created to establish process and data collection for estimating FTEs, i.e., amount funded, funding allocated to jobs, jobs directly created or retained

Jobs Reporting – Quality Assurance



- Subrecipients or vendors can perform head count before and after funding
- Payroll data can also be compared based on allocated funding and receipt of funds
- Supporting documentation should be provided to detail process to determine FTEs

ADDITIONAL GUIDANCE FROM SPECIFIC AGENCIES

Federal Education-- "Before & After "Model



"A job may be counted regardless of whether or not the employee filling the position is paid for with Recovery Act funds as long as the job would not have been created or retained in the absence of the Recovery Act funding"

(US ED Clarifying Guidance on American Recovery and Reinvestment Act of 2009
– Reporting on Jobs Creation Estimates by Section 1.5,
<http://www.ed.gov/policy/gen/leg/recovery/guidance-onjobs-creation.doc>)

Federal Education- “Before & After” Model - (continued)



- What was the jobs ‘picture’ *before* and *after* ARRA?
 - Difference between before and after scenarios is jobs created/saved estimate
 - Example: Budget shortfalls pre ARRA estimate loss of 1,000 jobs (‘before’)
 - Availability of ARRA funds means no actual job losses (‘after’)
 - Actual positions directly funded by ARRA may be less, e.g. 800, BUT able to report 1,000 jobs saved (difference in ‘before’ and ‘after’ is 1,000)

Federal Education- “Before & After” Model - (continued)

- If actual use of ARRA funds is for vendor services, cannot count any jobs created/saved by vendor. This would be double-counting the impact of ARRA funds
- This approach only applies to ARRA funds used to restore budget shortfall – other ARRA funds/programs may still create/save jobs
 - LEA still needs to be able to trace the job estimates to each ARRA award
 - For these ARRA programs, jobs reported never changes under cumulative reporting
 - Requires documentation to support the ‘before’ picture e.g. data modeling estimates
 - Reported expenditure data will significantly lag jobs data

Exceptions

- DOT jobs of second tier subcontractors should be included.
- Use of statistical methods when a recipient can demonstrate an unreasonable burden would result from using a direct or comprehensive job count. Prior approval required in most cases.
- It is recognized that a full-time work schedule varies amongst educational institutions. Therefore, an alternative calculation based on the allocable and allowable portion of activities expressed as a percentage of the total is acceptable for recipients of assistance agreements that must comply with OMB Circular A-21, Cost Principles for Educational Institutions.
- Some Federal Agency guidance gives specific exceptions, e.g. Dept of Labor guidance states that participants in Recovery Act funded Senior Community Service Employment Program should NOT be counted as jobs created.

SECTION 1512 QUALITY ASSURANCE

Quality Assurance

“Data quality is an important responsibility of key stakeholders identified in the Recovery Act. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted.”

Source: *Implementing Guidance for Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, OMB, June 22, 2009*

Quality Assurance - Prime Recipients Responsibilities



- Prime recipients are responsible for ensuring data quality and accuracy through a number of tasks including:
 - Ownership of recipient data and sub-recipient data
 - Initiation of appropriate data collection and reporting procedures
 - Implements action of internal control measures to help ensure accurate and complete information
 - Performance of data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated sub-recipient to address any data quality issues.

Quality Assurance Plan – Important Concepts and Reasons

- Several important concepts/reasons for building a well structured QA plan:
- New Data Elements – Many of the 99 data elements required under section 1512 are new for agencies
- Reporting on Vendors and Subrecipient Vendors – Disbursements and jobs creation information are just a few of the new items required to be report on for subrecipient and vendors
- Transparency – The public display of this information is unprecedented. Information will be available publicly every quarter.
- Timing – The normal 45 day turnarounds have now been reduced to 10 days after each quarter

Quality Assurance – COSO

- **Control Activities** – Policies and procedures help ensure management directives are carried out
- **Information and Communication** – Pertinent information must be identified, captured and communicated in a form and time frame that supports all other control components
- **Monitoring** – Internal control systems need to be monitored – a process that assesses the quality of the system’s performance over time
- **Control Environment** – The control environment sets the tone of an organization, influencing the control consciousness of its people
- **Risk Assessment** – Every entity faces a variety of risks from external and internal sources that must be assessed both at the entity and the activity level

- Internal Control - Integrated Framework, COSO

Process

- A QA team will:
 - Provide a consistent review of controls, reports, and policies across all agencies
 - Help ensure the statewide policy decisions made by the Recovery Cabinet are being followed in a consistent manner to review internal controls and compliance testing
 - Provide a centralized approach to tracking and remediating exceptions noted during both the agency and QA review process

FRAUD PREVENTION & DETECTION

ARRA Fraud Considerations

- A key objective of ARRA is to minimize fraud, waste and abuse
- Additional funding for audits, law enforcement and inspector general oversight
- Even a 5% error rate places \$40 billion of total program funding potential at risk for fraud, waste and abuse
- The federal government expects states to embed antifraud, waste and abuse efforts into ongoing oversight of programs
- Existing systems and controls may not be capable of addressing increased expectations
- The public has zero tolerance for fraud, waste and abuse

Entity-Level Antifraud Program Elements

- An effective antifraud program should incorporate entity level program elements to emphasize oversight, management accountability and an appropriate “tone at the top,” including the following specific elements:
 - Oversight Committee Function
 - Internal Audit Function
 - Compliance and Monitoring Function

Prevention

- Preventive fraud controls are important tools for heightening awareness of fraud risks and building a proactive, rather than reactive, approach to fraud awareness.
- An effective fraud prevention program should include the following specific elements:
 - Fraud and Misconduct Risk Assessment
 - Standards of Conduct
 - Communication Plan
 - Training Programs
 - Employee and Third-Party Due Diligence
 - Process-Specific Fraud Risk Controls

Detection

- Preventive controls can reduce, but not eliminate the propensity of fraudulent activity. As a result, detective controls are necessary to identify instances of fraud, waste and abuse.
- An effective fraud detection program should include the following specific elements:
 - Hotline and Whistleblower Mechanisms
 - Auditing and Monitoring, including:
 - Substantive Testing of Specific Fraud Risk Issues
 - Ongoing Monitoring of Antifraud Controls
 - Forensic Data Analysis

Response

- When instances of fraud, waste and abuse are identified, an appropriate response is necessary to investigate the impacts, enforce antifraud rules and remediate control weaknesses.
- An effective fraud response program should include the following specific elements:
 - Internal Investigative Protocols
 - Enforcement and Accountability Protocols
 - Disclosure Protocols
 - Remedial Action Protocols

Resources

- For general information:
 - www.recovery.gov
- For reporting:
 - www.FederalReporting.gov
- To apply for grants (use the Find Recovery Act Opportunities option):
 - www.grants.gov

Questions

BREAK

CHANGES IN SINGLE AUDIT AND IMPACT ON MANAGEMENT

Agenda

- Introduction of New Auditing Standards
- Auditor Communication
- Auditor Reports
- Internal Controls Defined
- Next Steps for Your Agency

Statements on Auditing Standards (SAS)

- What are SAS's?
- How are the SAS's used by the Auditors?
- What is communicated because of SAS changes?

Statements on Auditing Standards (SAS) (Continued)

- SAS's are the owners manual for audits. They explain:
 - How to conduct an audit;
 - How to communicate between the auditor and the auditee;
 - How to report the results.
- The SAS's, like owners manuals, are updated as new business requirements. Issues and guidance are needed.

New Statements on Auditing Standards

- 16 new Statements on Auditing Standards (SAS's) have been issued since December 2005;
- Three SAS's were effective for fiscal years ending June 30, 2007;
- Ten were effective for fiscal years ending June 30, 2008;
- One is effective for fiscal years ending June 30, 2010, but can be implemented earlier.
- SAS 117 - The provisions of this SAS are effective for compliance audits for fiscal periods ending on or after June 15, 2010. Earlier application is permitted

The New Auditing Standards

- **SAS 102** – Defining Professional Requirements in Statements on Auditing Standards
- **SAS 103** – Audit Documentation
- **SAS 104** – Amendment to SAS 1, Codification of Auditing Standards and Procedures (“Due Professional Care in the Performance of Work”)
- **SAS 105** – Amendment to SAS 95, Generally Accepted Auditing Standards
- **SAS 106** – Audit Evidence
- **SAS 107** – Audit Risk and Materiality in Conducting an Audit
- **SAS 108** – Planning and Supervision

The New Auditing Standards (Continued)

- **SAS 109** – Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- **SAS 110** – Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained
- **SAS 111** – Amendment to SAS 39, Audit Sampling
- **SAS 112** – Communicating Internal Control Related Matters Identified in an Audit
- **SAS 113** – Omnibus Statement on Auditing Standards -2006
- **SAS 114**– The Auditor’s Communication With Those Charged With Governance
- **SAS 115** – Amendment to SAS 112 – Communicating Internal Control Related Matters Identified in an Audit

The New Auditing Standards (Continued)

- SAS 116 – Interim Financial Information
- **SAS 117** – Compliance Audits

Demonstration

- Be able to demonstrate or provide evidence for verification, such as:
 - Written policies and procedures
 - Timely authorization and approval by appropriate personnel
 - Documentation on workpapers and supporting paper work
 - Use of a checklist
 - Meeting, training, seminar, and CPE credit

Auditor's Communication with Those Charged with Governance

- Those Charged with Governance:
Persons with responsibility for overseeing the strategic direction of an entity and the financial reporting and disclosure process.
- Management:
Person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued.

Auditor's Communication with Crowe Horwath™ Those Charged with Governance (Continued)

- Matters to be communicated:
 - The auditor's responsibilities under generally accepted auditing standards;
 - An overview of the planned scope and timing of the audit;
 - Significant findings from the audit.

Auditor's Communication with Those Charged with Governance (Continued)



- Significant findings from the audit:
 - Auditor's views about entity's significant accounting practices, including accounting policies, accounting estimates, and financial statements disclosures;
 - Significant difficulties, if any encountered during the audit;
 - Uncorrected misstatements, other than those the auditor believes are trivial, if any;
 - Disagreement with management, if any;
 - Other findings or issues, if any, arising from the audit that are significant and relevant to those charged with governance.

Auditor's Communication with Those Charged with Governance (Continued)



- Communication to occur at the beginning of the audit;
- Communication to occur at the end of the audit.

Auditor's Communication with Those Charged with Governance (Continued)



- Engagement letter:
 - Communicates requirements such as auditor and district responsibilities;
 - Legal considerations;
 - Scope and timing of the audit.

Auditor's Communication with Those Charged with Governance (Continued)



- Introduction Letter:
 - Written document delivered to each Board, Trustee, or Council member;
 - Contains a brief description of each of the SAS 114 requirements;
 - Explains how they will be communicated and additional documents expected prior to completion of audit.

Auditor's Communication with Those Charged with Governance (Continued)



- Pre-Audit Meeting(s):
 - With Oversight Board and / or Finance Committee to communicate SAS 114 requirements;
 - Catalyst to obtain more involvement in the process from the Board.

Auditor's Communication with Crowe Horwath™ Those Charged with Governance (Continued)

- Include the Board of Governance in the Audit Process:
 - Internal control questionnaire, SAS 99 interviews, related parties questionnaire, etc.;
 - Enhances the Board's understanding and appreciation for the audit process.

Auditor's Communication with Those Charged with Governance (Continued)

- SAS 114:

- A summary letter describing how SAS 114 requirements were satisfied during the audit;
- Letter includes any difficulties encountered during the audit and significant audit adjustments made;
- Includes results of internal control findings and recommendations, etc.;
- Letter may be in addition to the traditional "Management Letter" or could be designed to replace the former management letter.

Communicating Internal Control Related Matters

The standard has two unconditional requirements:

- The auditor must evaluate identified control deficiencies and determine whether those deficiencies, individually or in combination, are significant deficiencies or material weaknesses;
- The auditor must communicate in writing, significant deficiencies and material weakness to management and those charged with governance (including those matters identified in prior audits but not yet remedied);
- Under Government Auditing Standards (GAS), these types of issues must be reported as findings in the GAS report under SAS 112.

Communicating Internal Control Related Matters (Continued)

- Two types of control deficiencies:
 - A deficiency in **design** exists when:
 - A control necessary to meet the control objective is missing; or
 - An existing control is not properly designed so that, even if it operates as designed, the control objective is not always met.
 - A deficiency in **operation** exists:
 - When a properly designed control does not operate as designed; or
 - When the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Communicating Internal Control Related Matters (Continued)

- A **material weakness** is 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;
- A **significant deficiency** is 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;
- The term **significant deficiency** replaces the term **reportable condition**.

Control Deficiency

“Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or be material weakness.

However, we have identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.”

Control Deficiencies (Continued)

“A control deficiency exists when 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 on a timely basis.”

Control Deficiencies (Continued)

- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the XYZ Agency's ability to:
 - Initiate
 - Authorize
 - Record
 - Process
 - Report

Control Deficiencies (Continued)

- A deficiency can be described as the inability to produce reliable financial data in accordance with the prescribed method of accounting, described in the entity's footnote describing its significant accounting policies (usually footnote 1), such that there is more than a remote likelihood that a misstatement of the state's financial statements that is more than inconsequential will not be prevented or detected by the state's internal controls.

Control Deficiencies (Continued)

“We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding #10-01 and #10-02 to be deficiencies in internal control over financial reporting.”

Material Weakness

“A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the XYZ Agency’s internal controls.”

Material Weakness (Continued)

“Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.”

Compliance

“As part of obtaining reasonable assurance about whether XYZ State’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.”

Compliance (Continued)

“The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs and identified as Findings 10-3, 10-4, 10-5, etc.”

Compliance (Continued)

“We also noted certain additional matters that we reported to management of XYZ State, in a separate letter dated Date, 2010; State of XYZ’s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit State of XYZ’s response and accordingly, we express no opinion on it; This report is intended solely for the information and use of the oversight board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.”

QUESTIONS?

LUNCH

REMEDICATION OF MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

Internal Controls

- Internal controls are simply “good business practices”. They include anything which serves to:
 - Safeguard assets;
 - Ensure validity of financial records and reports;
 - Promote adherence to policies and procedures;
 - Improve the effectiveness and efficiency of operations.

Internal Control Practices

- Why are internal controls important?
 - Internal controls are important because they
 - Are essential to assuring the accomplishment of goals and objectives
 - Provide reliable financial reporting for management decisions
 - Ensure compliance with applicable laws and regulations
 - Avoid the risk of public scandals

Internal Control Principles

- **Separation of Duties:** Duties are divided so that no one person has complete control over a key function or activity;
- **Authorization and Approval:** Proposed transactions are authorized when they are consistent with policy and funds are available;
- **Custodial and Security Arrangements:** Responsibility for custody of assets is separated from the related recordkeeping;
- **Review and Reconciliation:** Records are examined and reconciled to determine that transactions were properly processed and approved.

Internal Control Principles (Continued)

- **Physical Controls:** Equipment, inventories, cash and other assets are secured physically, counted periodically and compared with amounts shown on control records;
- **Training and Supervision:** Well trained and supervised employees help ensure that control processes function properly;
- **Documentation:** Well documented policies and procedures promote employee understanding of job duties and help ensure continuity during employee absences or turnover;
- **Cost / Benefit:** Costs associated with control processes should not exceed expected benefits.

Controls – Important Items

Compliance is not the same as Controls.

Compliance can occur without proper controls.

Auditors are required to determine that the proper controls are in place AND that a program is in compliance with federal requirements.

The control structure verifies that compliance is occurring and reduces the chance of noncompliance.

Activities Allowed or Unallowed/Allowable Costs

Risk Assessment

Example of key control in place

Key manager has a sufficient understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a federal program and not be detected.

What the auditors will want:

- An individual has been identified for understanding and monitoring cost processes.
- Adequate resources have been made available to the key manager for monitoring cost.
- Who is the person identified? When the auditors discuss the grant with this person, do they know the information? Does he or she have the information needed available?

Activities Allowed or Unallowed/Allowable Costs

Control Activities

Example of key control in place

Supporting documentation compared to list of allowable and unallowable expenditures.

What the auditors will want:

- Someone reviews supporting documentation to determine that charges or costs agree with lists of allowable expenditures.
- Who is the person responsible for approvals? Is it documented on each expense? Does the person approving the expenses know what is allowable?

Activities Allowed or Unallowed/Allowable Costs

Information and Communication

Example of key control in place

Reports, such as a comparison of budget to actual provided to appropriate management for review on a timely basis.

What the auditors will want:

- Comparison of budget to actual reports are provided to management on a monthly basis.
- Who is the person receiving the reports? Is he or she reviewing the reports? Is he or she questioning odd activity?

Activities Allowed or Unallowed/Allowable Costs

Information and Communication

Example of key control in place

Grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars available to staff responsible for determining activities allowed and allowable costs under federal awards.

What the auditors will want:

- All grant documents are kept in a location that is accessible to personnel responsible for determining activities allowed and allowable costs.
- Where are the agreements kept? Can the appropriate people access them? Are they updated?

Activities Allowed or Unallowed/Allowable Costs

Monitoring

Example of key control in place

Management reviews supporting documentation of allowable cost information.

What the auditors will want:

- Review of supporting invoices, contracts or other documentation of allowable cost information by appropriate personnel has been documented.
- Who is doing the review? Is that person appropriate? Is the review documented?

Cash Management

Risk Assessment

Example of key control in place

Mechanisms exist to anticipate, identify, and react to routine events that affect cash needs.

What the auditors will want:

- A trigger for a cash draw-down or cash advance request is identifiable.
- Documentation of how notification of a cash need occurs.
- What determines when a draw-down or an advance is requested? Who determines a cash need has occurred? Is a separate individual notified? Does this occur often enough? Are the above items adequate to react to or anticipate cash needs?

Cash Management

Control Activities

Example of key control in place

Appropriate level of supervisory review of cash management activities.

What the auditors will want:

- Someone reviews/approves disbursements.
- Someone reviews/approves draw-down/advance requests.
- Who is the person responsible for approvals/reviews? Is this person reasonable? Is it documented on each expense and draw-down/advance? Does the person approving/reviewing the expenses know what is allowable? Is supporting documentation provided when the expense or draw-down/advance is presented for approval/review?

Cash Management

Information and Communication

Example of key control in place

Variance reporting of expected versus actual cash disbursements of federal awards and draw-downs of federal funds.

What the auditors will want:

- The process in place for reconciliation between expected and actual cash disbursements.
- The process for reconciliation between expected and actual cash receipts.
- Who completes the reconciliation? Does anyone receive the reconciliation? Is he or she reviewing the reports? Is she or he questioning odd activity? Are there sign-offs to document completion and review? Are these occurring timely?

Cash Management

Monitoring

Example of key control in place

Periodic independent evaluation (for example, by internal audit, top management) of entity cash management, budget and actual results, repayment of excess interest earnings, and federal draw-down activities.

What the auditors will want:

- The process of the independent evaluation that occurs for cash management activities.
- If the evaluation occurs by a separate approval of receipts/disbursements: Do the disbursements/receipts contain a sign-off to show they occurred? Who is doing the review? Is that person appropriate?
- If evaluation occurs through reporting: Does the information on the reports match cash management activities? Who is getting the reports? Are they appropriate? Are they reviewing them?

Equipment and Real Property Management

Risk Assessment

Example of key control in place

Procedures to identify risk of misappropriation or improper disposition of property acquired with federal awards.

What the auditors will want:

- Policies and procedures related to equipment and real property management.
- Do the policies and procedures follow what is happening in the entity? Have any procedures been implemented to address any risks related to misappropriation (that is, inventory on a regular basis, tagging of assets)? Have any procedures been implemented to address any risks related to improper dispositions (that is, disposal forms)?

Equipment and Real Property Management

Control Activities

Example of key control in place

Property tags are placed on equipment.

What the auditors will want:

- A listing of equipment with tag numbers to select a sample and verify tags match the listing.

Equipment and Real Property Management

Control Activities

Example of key control in place

A physical inventory of equipment is periodically taken and compared to property records.

What the auditors will want:

- The updated listing and a listing of differences found. An explanation for the differences.

Equipment and Real Property Management

Control Activities

Example of key control in place

Property records contain description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of federal participation in the cost, location, condition, and disposition data.

What the auditors will want:

- The listing of capital assets that includes all of the above information. A sample will be chosen to verify that the information on the listing is correct.

Equipment and Real Property Management

Information and Communication

Example of key control in place

Accounting system provides for separate identification of property acquired wholly or partly with federal funds and with nonfederal funds.

What the auditors will want:

- A report listing equipment to verify that federally funded property is separately identified from nonfederal funded property.

Equipment and Real Property Management

Monitoring

Example of key control in place

Significant dispositions of assets provided from federal awards are approved by the board and documented in minutes.

What the auditors will want:

- The policy for disposal of assets.
- A listing of all disposals of assets acquired with federal funds.
- Board minutes to verify that dispositions were approved by the board.

Equipment and Real Property Management

Monitoring

Example of key control in place

Management reviews the results of periodic inventories and follows up on inventory discrepancies.

What the auditors will want:

- Information on management's role in the inventory process.
- Supporting documents that show management reviewed inventory results.
- Supporting documents that show management followed up on inventory discrepancies.

Procurement, and Suspension and Debarment

Risk Assessment

Example of key control in place

Conflict-of-interest statements are maintained for individuals with responsibility for procurement of goods or services.

What the auditors will want:

- Copies of the statements.
- Are the statements updated annually? Are they reviewed for any conflicts? Who reviews them? Do all appropriate personnel complete them?

Procurement, and Suspension and Debarment

Control Activities

Example of key control in place

Establish segregation of duties between employees responsible for contracting, accounts payable, and cash disbursing.

What the auditors will want:

- Any policies or procedures related to contracting, accounts payable and cash disbursing.
- Are the policies and procedures up-to-date? Is there proper segregation of duties? Are the policies and procedures being followed?

Procurement, and Suspension and Debarment

Control Activities

Example of key control in place

Procedures established to verify that vendors providing goods and services under the award have not been suspended or debarred by the federal government.

What the auditors will want:

- Any policies or procedures related to suspension and debarment.
- Are the policies and procedures up-to-date? Are the policies and procedures being followed? Do the employees know the federal Web site where vendors can be checked? What is documented to show that the vendors were checked? How often are vendors verified? Are all vendors verified or only ones receiving federal awards? How are they flagged?

Procurement, and Suspension and Debarment

Information and Communication

Example of key control in place

Procurement staff members are provided a current hard-copy *Excluded Parties List System* (EPLS) or have online access.

What the auditors will want:

- Demonstration that the appropriate personnel knows the Web site and has access.

Procurement, and Suspension and Debarment

Information and Communication

Example of key control in place

Channels of communication are provided for people to report suspected procurement and contracting improprieties.

What the auditors will want:

- Documentation on how improprieties can be communicated in the organization.
- Is there a whistleblower function? Is it anonymous? Is this communicated often to employees? How are ethics communicated? Do employees know how to report improprieties?

Procurement, and Suspension and Debarment

Monitoring

Example of key control in place

Management periodically conducts independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.

What the auditors will want:

- Documentation of management reviews.
- Is the person completing the review appropriate? What is available to document that the review occurred? Is the review occurring timely? Does the person completing the review know the requirements? How often is the review occurring?

Reporting

Risk Assessment

Example of key control in place

Mechanisms exist to identify risks of faulty reporting caused by such items as lack of current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of federal awards.

What the auditors will want:

- Has management identified and put procedures in place to locate errors? What is in place to identify where errors could occur?

Reporting

Control Activities

Example of key control in place

Tracking system which reminds staff when reports are due.

What the auditors will want:

- Copies of reminders or access to master log of report due dates.
- Are there internal reminders? Are all reports included – financial and performance? Are copies of the notices or dates kept?

Reporting

Control Activities

Example of key control in place

Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports.

What the auditors will want:

- Documentation of supervisory reviews.
- Is the person completing the review appropriate? What is available to document that the review occurred? Is the review occurring timely? Does the person completing the review know the requirements?

Reporting

Information and Communication

Example of key control in place

An accounting or information system that provides for the reliable processing of financial and performance information for federal awards.

What the auditors will want:

- How is it known that the system is reliable? How is information verified? Are passwords used? How often are they changed? Do people use each others' sign-ons and passwords? Is there access to the source code?

Reporting

Monitoring

Example of key control in place

Periodic comparison of reports to supporting records.

What the auditors will want:

- Documentation of management reviews.
- Are reports being compared to supporting documentation? What is the supporting documentation? What is available to document that the review occurred? Is the review occurring timely? How often is the review occurring?

Internal Control Problems Frequently Noted



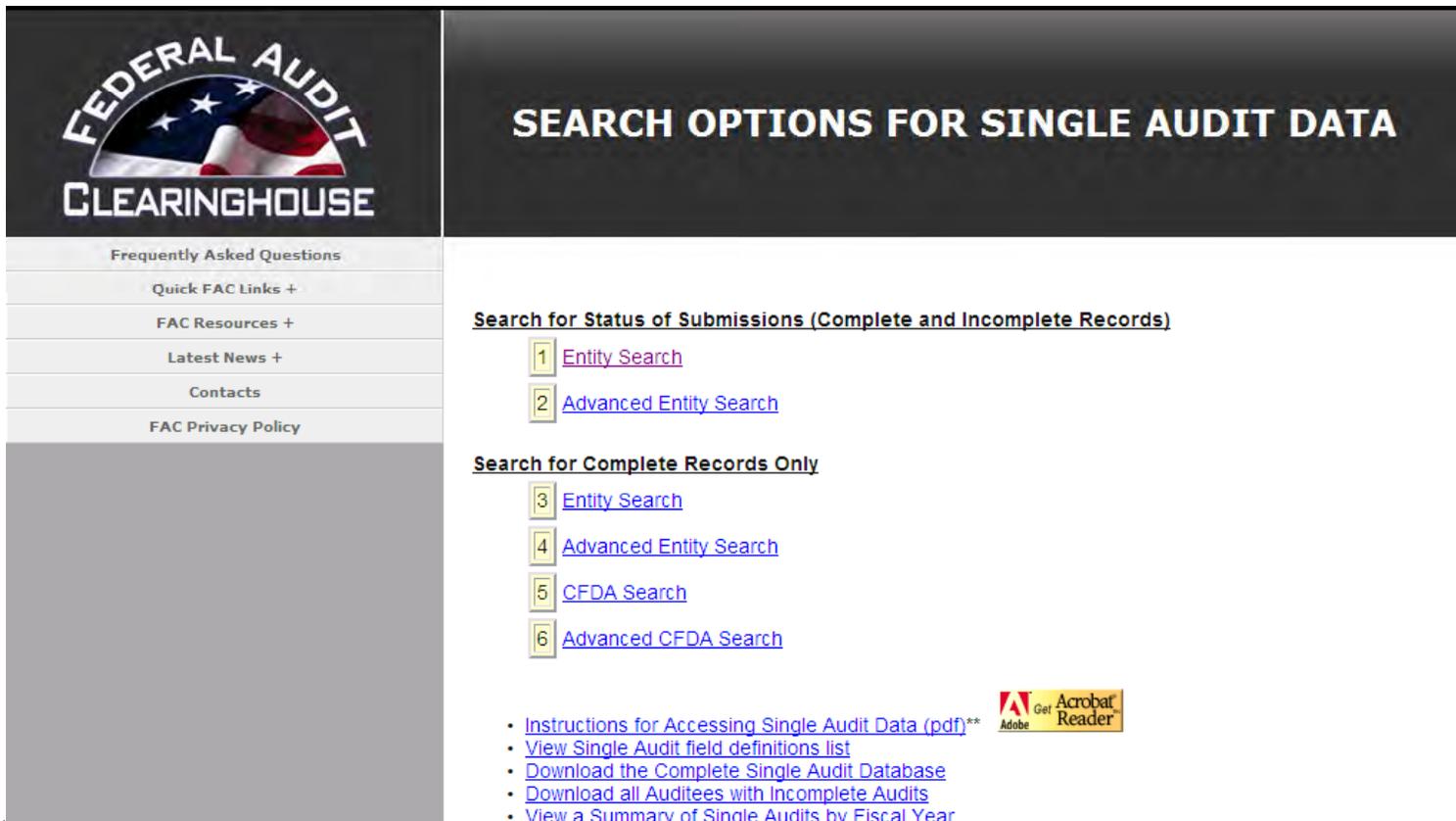
- Financial reports not prepared timely
- Inadequate documentation to support activity
- Failure to reconcile cash and investment balances monthly
- Bank reconciliation does not agree to general ledger balance
- No formal review of reconciliations
- Unrecorded adjustments
- Unsupported reconciling items
- Errors within reports (this month's beginning balance \neq last month's ending balance)
- Stale dated checks
- Timely deposits
- Petty cash controls
- Lack of supporting documentation
- Lack of purchase requisition orders and approval

Internal Control Problems Frequently Noted (Continued)

- Lack of proper training
- Lack of written procedures
- No fraud risk assessment
- No whistle-blowing policy
- Failure to communicate internal controls
- Lack of segregated duties
- Lack of approval and authorization
- Lack of administration review (internal audit)
- Lack of procedures regarding credit card usage

Audit Preparation

- Review others' audit results
 - Potential source: Federal Audit Clearinghouse



The screenshot shows the Federal Audit Clearinghouse website. The header features the logo and the text "SEARCH OPTIONS FOR SINGLE AUDIT DATA". A left sidebar contains navigation links: "Frequently Asked Questions", "Quick FAC Links +", "FAC Resources +", "Latest News +", "Contacts", and "FAC Privacy Policy". The main content area is divided into two sections: "Search for Status of Submissions (Complete and Incomplete Records)" and "Search for Complete Records Only". Each section lists search options: 1. Entity Search, 2. Advanced Entity Search, 3. Entity Search, 4. Advanced Entity Search, 5. CFDA Search, and 6. Advanced CFDA Search. At the bottom, there are links for "Instructions for Accessing Single Audit Data (pdf)**", "View Single Audit field definitions list", "Download the Complete Single Audit Database", "Download all Auditees with Incomplete Audits", and "View a Summary of Single Audits by Fiscal Year". An Adobe Acrobat Reader logo is also present.

Audit Findings

- Required to be communicated in writing;
- Information reported:
 - Criteria or specific requirement
 - Condition
 - Context
 - Effort
 - Cause
 - Recommendation
 - Management Response

Audit Issues

- Responding to your auditors:
 - Internal control documentation;
 - Significant deficiencies and material weakness.
- Actions to be taken to address audit issues:
 - Proactive approach to internal control development;
 - Open discussions and assistance in understanding from the auditors.

State of XYZ's Response to Auditor's Report

- Oversight Board's response:
 - Establish policies and / or administrative procedures to address deficiencies;
 - Designate administrators responsible for correcting deficiencies;
 - Request a follow up report from administration prior to the next year.

State's Response to Auditor's Report (Continued)

- Administration response:
 - Provide documentation:
 - Financial statements
 - Journal entries / budget transfers
 - Cash receipts
 - Oversight / monitoring controls
 - IT controls

State's Response to Auditor's Report (Continued)

- Administration Response (Continued):
 - Periodically review internal controls / written procedures;
 - Continue to provide communication and training for employees;
 - Written response / plan of action for each material weakness or significant deficiency.

Next Steps for You and Your Agency

- Review your audit opinion letters;
- Review any audit findings;
- Review SAS 114 communication;
- Develop a Corrective Action Plan (CAP);
- Monitor and adjust the CAP.

Internal Controls

- Formal Procedures Do
 - Understand what controls are missing
 - Document what is happening
 - Auditors demand more
 - Demonstrate to public accountants
 - Training and communication

What Are Procedures?

- Step by Step Instructions
- Reference materials
- Defines functions that people fulfill

Why Are Procedures Important?

- Document job functions and duties
- Provide step by step instructions
- Assist in cross-training staff
- Document compliance with laws and regulations
- Deter staff from taking short cuts

What Are the Qualities of Good Procedures?

- Formal and written
- Reviewed periodically
- Easy to follow
- Clear defined roles of staff
- Emphasize segregation of duties

How Are Procedures Developed?

- Document what you do (narrative, flowchart)
- Understand "best practices"
- Review for incompatible duties
- Written procedures – review regularly

What Areas Should Procedures Cover?



- Cash and Investments
- Revenue/Receivables
- Expenditures/Expenses for Goods and Services/Accounts Payable
- Payroll
- Interfund Loans/Transfer
- Inventories
- Debt and Debt Service

Training and Communication

- Periodic training helps control process function properly
- Periodic training helps keep knowledge current
- Periodic cross training helps continuity during employee absences or turnover
- Training can be formal and informal, i.e. seminar by outside specialist or an in-house staff meeting

Training and Communication (Continued)

- Communication with employees, including those charged with governance, key managements, and staff
- Understand roles and expectation

Internal Controls – Final Thoughts...

- Internal controls are meant to keep honest people honest;
- No internal control is going to be “perfect”;
- Most important is the monitoring of the controls;
- Audits are designed to test internal controls, not act as an internal control;
- You must set the “Tone at the Top”.

Questions

THE MANY FACES OF FRAUD

Objectives of Fraud Presentation

- What is Fraud?
- Characteristics of Fraud Culprits
- Frequency and Cost of Government Fraud
- The Fraud Triangle
- Conditions Conducive to Fraud(Indicators)
- Fraud Deterrents
- Fraud Schemes

Definition of Fraud

- Webster's Dictionary: "Deceit, trickery; cheating, intentional deception to cause a person to give up property or some lawful right."
- AICPA EDP Fraud Review Task Force: "Any intentional act, or series of acts, that is designed to deceive or mislead others and that has an impact or potential impact on an organization's financial statements."
- The Accountant's Handbook of Fraud & Commercial Crime: "Fraud is criminal deception intended to financially benefit the deceiver."

Capability

Gives perpetrator opportunity to turn desire into reality.

Six common traits of personal capability

- Functional authority within the organization
- Sufficient intelligence to understand and exploit a situation
- Strong ego and personal confidence
- Strong coercive skills
- Effective at being deceptive
- High tolerance for stress

Who is the Fraudster?

2008 ACFE's Report to the Nation Perpetrator's Profile:

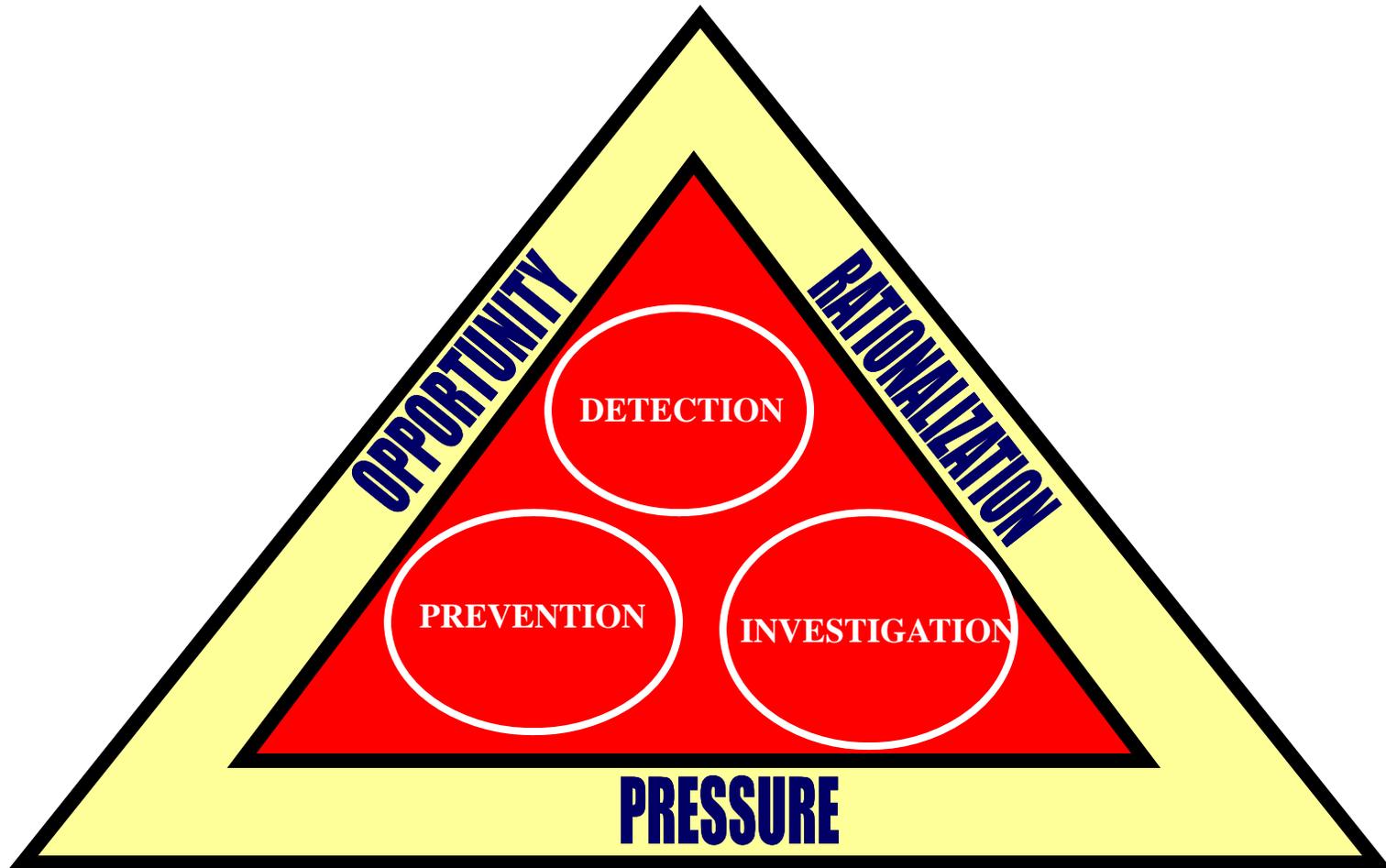
- Male – 59%
- Age 41 – 60 years old – 54.4%
- As the longevity increases, so does the cost of the crime. However, the frequency of fraud does not.
- Over half had at least attended college
- Never been Charged or Convicted of a crime – 87.4%

- Source: "2008 Report to the Nation on Occupational Fraud and Abuse" by the Association of Certified Fraud Examiners (ACFE)

Cost of Operational Fraud

- \$994 billion in revenues are lost annually to fraud, or over 7% of total revenues
- Average scheme lasted 24 months before detected
- Over 25% of frauds caused losses of over \$1 million
- Industry with second highest incidence of fraud:
Government – 12% of cases in this study
 - 12% of frauds are perpetrated against governments. Median Loss \$93,000.
 - Corruption schemes made up 26.4% of government frauds.
 - Billing schemes account for 24.5% of government frauds.

FRAUD TRIANGLE Crowe Horwath™



Elements of Fraud

Motive + Opportunity + Rationalization

Motive – reason to commit a crime

- Individual motivations
 - Gambling, extramarital activity, alcohol/ drugs
 - Unexpected expenses – illness, etc.
 - Resentment – against organization.
 - Living beyond means

- More dissatisfied the employee, the more likely he/ she is to commit fraud

Opportunities Personal & Organizational

Motive + Opportunity + Rationalization

- Opportunities – Attributes or policies that allow fraud to occur or decrease probability that fraud will be disclosed or punished
- Personally created opportunities
 - Familiarity with operations, including cover-up capabilities
 - Position of trust where employee is left on their own
 - Close association with suppliers and other key people
 - Collusion

Rationalization

Motive + Opportunity + Rationalization

- Rationalization – End Justifies the Means
 - Owed to me
 - Just borrowing
 - This is a big organization and a little won't matter to them
 - Everybody does it
 - The employer deserves it
 - I'll stop when...
 - Employee still thinks of themselves as honest

Questions to Think About

- What operational area presents the largest fraud risk?
 - Is this always a monetary consideration?
- In what area of your organization has fraud occurred?
- What client group presents the greatest risk from fraud?
- Do you have procedures for dealing with suspected fraud when it is detected?

Management Motivation for Government Fraud



- **Position security depends on performance**
 - Budget requirements
- **Federal revenue flow**
 - Federal Reporting
 - Cash flow management
- **Bond Issuances and indenture requirements**
 - Bond Ratings Revenue Reserves

Red Flags of Fraud

- **Caution:** existence of one or more of these red flag items does not mean fraud exists.
- These are indicators that fraud might exist, and the area or issue may warrant further attention.

Red Flags of Fraud

Employees

- No rotation of duties/employees
(only person who can perform duties)
- Never out of balance—balancing perfectly all the time
- Lack of accountability
- Defensive attitude, Secretive
- Living beyond means
- Lack of vacations/leave or unusual work hours
- “Holding” work during vacation

Red Flags of Fraud



Other

- Frequent overrides of internal controls or policies
- Unresolved exceptions, frequently recurring items, or stale items on exception reports and reconciliations
- Complaints from vendors or other outside parties.
- Large numbers of items on reconciliations
- Missing documentation
- Photocopies vs. originals
- Cash shortage/overage patterns

Most Common Sources of Fraud Detection

Category	Fraud Notification	Anti-Fraud Measure
Hotline tip	46%	44%
Internal audit	19%	56%
Accident	20%	
Internal controls	23%	
External audit	9%	70%
Notified by police	3%	

Source: "2008 Report to the National on Occupational Fraud" by ACFE

Operational Schemes

- Travel Expense Fraud
- Purchasing Card Fraud
- Accounts Payable Fraud
- Inappropriate access to data – Insider Fraud

Travel Expense Fraud Schemes

- Duplicative reimbursement
- Reimbursement for costs not incurred
- Personal expenses placed for reimbursement
- Unnecessary expenses incurred
- Miscellaneous un-receipted costs

Travel Expense Fraud Schemes (Continued)

- E-tools
 - Dates for travel = Date of travel expenses
 - Similar travel = Similar reimbursement
 - Terminated employees receiving expense checks
 - Even dollar amount requests

- Manual Tests
 - Proper authorization
 - Compare consecutive submission of travel reimbursements
 - Review claimed expenses with support, per diem -v- meals
 - Compare timesheets to hours

Purchasing Card - Fraud

- Non-business charges
- Spending limits abuse – split purchasing
- Pay and return or card rebates
- Purchases from vendors when the organization has other contracted vendors

Purchasing Card – Fraud

- E-tools
 - Use by terminated employees
 - Identification of dormant accounts
 - Proper implementation of policy

- Manual Tests
 - Review of purchases under threshold (e.g. \$9,999)
 - Rationalization testing. Does purchase make business sense given duties of card holder?
 - Review statements between months to see if credits were issued, but not received.

Accounts Payable Fraud Schemes

- Fictitious vendors
- Pay and return
- Over billing-
 - inferior products
 - work not performed

Accounts Payable Fraud

- E-Tools
 - Identify large invoices with no **purchase order**
 - Identify top 10 vendors – reasonable
 - Sort for same address, phone number
 - Compare vendor unit price variances by product over time
- Manual Tests
 - Vendor logic testing
 - Sole source vendors
 - Review change orders

Access to Data

- Do employees have the appropriate access to data in order to complete their assigned duties?
 - Employee changes positions but computer access is not changed.
 - Access does not match needs of job performance
 - Shared Password trap

Access to Data (Continued)

- E-Tools
 - Compare log-on dates with PTO days
 - Identify log-on for multiple step process
 - Random authentication
 - Password expiration dates

- Manual Tests
 - Review assigned duties by position with system access

A Series of Examples – Check Disbursements

Sorting your check disbursements alphabetically can identify Vendor look-alikes:

<u>Vendor ID</u>	<u>Vendor Name</u>	<u>Disbursement To Date</u>
362862	TAILOR MADE SOLUTIONS	\$32,975
362868	TAILOR MAIDE SOLUTIONS	\$35,583
373920	TAILOR MADE SOLUTIONS	\$59,012

A Series of Examples – Total Disbursements

Sort the total payments made to each vendor in descending order.

<u>Vendor Name</u>	<u>Disbursement To Date</u>
Fabric Distributors Inc.	\$1,873,980
Silk Designer Patterns Inc.	\$1,792,621
Men's Apparel Option Inc.	\$1,021,426
Timothy Wineguard	\$1,004,372
Threads Unlimited LLC	\$ 981,982
Wool Makers Incorporated	\$ 942,533

A Series of Examples – Disbursements by Vendor

Know your Alphabet Vendors

<u>Vendor</u>	<u>Check Date</u>	<u>Check Amount</u>
AT&T	01/03/06	\$1,493.43
AT&T	02/02/06	\$1,394.99
AT&T	02/05/06	\$2,049.63
AT&T	02/23/06	\$1,032.88
AT&T	03/02/06	\$1,382.21

A Series of Examples – Disbursements by Vendor

Know your Alphabet Vendors:

AT&T The telecommunications giant
OR
AT&T Alan Tom & Terry

A Series of Examples – Disbursements by Frequency

Determine if a Vendor is receiving payments more frequently than expected.

<u>Vendor</u>	<u># of Pymts in 12 months</u>
Fabric Distributors Inc.	11
Silk Designer Patterns Inc.	10
Men's Apparel Option Inc.	11
Timothy Wineguard	43
Threads Unlimited LLC	10
Wool Makers Incorporated	11

A Series of Examples – Even Dollar Disbursements

Identify disbursements with “000.00” as the last 5 digits.

<u>Vendor</u>	<u>Ck Date</u>	<u>Amount</u>
Threads Unlimited LLC	3/10/07	\$50,000
Timothy Wineguard	3/18/07	\$50,000
Anthem BC	3/18/07	\$50,000
Timothy Wineguard	3/20/07	\$50,000
1 st National Bank	3/20/07	\$50,000

A Series of Examples – Duplicates

Identify common disbursement amounts, invoice numbers.

<u>Vendor</u> <u>Invoice</u>	<u>Amount</u>	<u>Date</u>	<u>Date</u>
TAILOR MADE SOLUTIONS	\$83,298.23	10/23/06	C09293
TAILOR MADE SOLUTIONS	\$85,001.22	10/26/06	C09293
TAILOR MADE SOLUTIONS	\$85,001.22	11/02/06	C09293
TAILOR MADE SOLUTIONS	\$85,001.22	12/02/06	C09360

A Series of Examples – VOID checks

<u>Date</u>	<u>Payee</u>	<u>Ck #</u>	<u>Amount</u>
03/12/07	VOID	1002	\$.00
03/12/07	VOID	1023	\$6,402.00
03/12/07	VOID	1036	\$.00
03/12/07	VOID	1041	\$1,938.92
03/12/07	VOID	1034	.00

A Series of Examples – Invoices

Test for shell companies based on invoice numbers issued.

<u>Ck. Date</u>	<u>Payee</u>	<u>Invoice #</u>	<u>Ck #</u>	<u>Ck Amount</u>
03/12/07	Fabrics Ltd.	203920	2044	\$112,400
03/12/07	Fabrics Ltd.	203921	2044	\$112,400
03/12/07	Fabrics Ltd.	203922	2044	\$112,500
04/05/07	Fabrics Ltd.	203023	2187	\$152,839
04/05/07	Fabrics Ltd.	203025	2187	\$153,839

A Series of Examples – Vendor Address

Search for similar or same addresses:

<u>Vendor</u>	<u>Address</u>
Fabrics Ltd.	4884 Fallcreek, Indianapolis, IN 46204
Timothy Wineguard	4884 Fall Creek, Indianapolis, IN 46204

One vendor with multiple addresses:

<u>Vendor</u>	<u>Address</u>
Tailor Made Solutions	P.O. Box 876, Indianapolis, IN 46204
Tailor Made Solutions	142 Drive Way Lane, Winter Park, WI 83700

Other Operational Schemes

- Example of other Non-cash Schemes
- Unauthorized computer usage
 - eBay
 - Personal business
 - Other illegal uses
- Sale on or non-business use of telephones

Grant Fraud

- Over \$450 billion dollars in Federal Assistance Agreements in the form of Grants are awarded annually to support:
 - National infrastructure programs in transportation, homeland security, criminal justice, agriculture, human health and the environment.
 - Fund scientific research, studies, and analyses.
 - Further the social sciences, art, literature, and promote cultural enrichment.

Grant Fraud

- National Procurement Fraud Task Force
 - Established 10.10.06
 - Promote the prevention, early detection and prosecution of procurement fraud.
 - Includes an emphasis to increase civil and criminal enforcement of grant fraud and other types of frauds.
- National Procurement Fraud Task Force issued a White Paper 07.09.07 which identified the need for government contractors to develop a compliance program that would include, at minimum:
 - Periodic compliance reviews.
 - Internal employee reporting mechanism, such as a hotline.
 - Internal Audits.

Grant Fraud

- White Paper 07.09.07 cont:
 - Disciplinary action for improper employee conduct.
 - Timely reporting to the Government of any suspected violations of law, regulations or contractual provisions.
 - Full cooperation with agency investigations.

Grant Fraud Prevention

- Establish an effective system of controls including:
 - Accounting Controls
 - Internal Controls
 - Record/Document Controls
- Know what is permissible for each Grant you have been awarded.

Grant Fraud Prevention

- Develop Internal compliance and ethics programs that address:
 - Identification and working knowledge of the regulations for each Grant awarded.
 - Anti-fraud Training provided to all employees.
 - Establish that all employees are responsible for reporting fraud, waste or abuse.
 - Provide a mechanism to report fraud, waste or abuse.

Grant Fraud Prevention

- Establish a response program for all reports of fraud, waste or abuse of Grant Funds.
 - Inspector General of the agency that distributed the federal grant funds. www.ignet.gov

Grant Fraud Detection

- Current fraud schemes against the public that involve issuing grants:
 - The government does not telephone people or send unsolicited letters to offer grants.
 - The government does not issue grants just because someone is a good taxpayer.
 - There are no fees when you apply for government grants.
 - Federal governments website at <http://www.grants.gov/>.

Grant Fraud Detection

- What are common fraud schemes
 - Using Grant Funds for personal expenses.
 - Submitting expenses that have not been incurred for payment.
 - Submitting expenses that are not directly tied to the Grant.
 - Submitting false claims for travel vouchers or expense reports.
 - Forging documents.
 - Double billing
 - Using company credit card for personal use purchases

Grant Fraud Detection

- Inflating costs
 - Ghost employees
 - Fictitious contractors
 - Over charging labor costs, hours or rates
 - Inflating enrollment/attendance records or other cost drivers.

Grant Fraud Detection

- Who are the offenders:
 - Bookkeepers
 - Contractors and subcontractors
 - Consultants
 - Grant recipients, board members, business partners, managers and other company officers

Grant Fraud Detection

- RED FLAGS
 - One person in control
 - Lack of separation of duties
 - Employee living beyond means
 - Lack of procedures
 - Lack of supporting documentation
 - Records are not independently audited

Grant Fraud Investigations

- Federal grants are susceptible to several forms of financial theft such as:
 - Embezzlement
 - Theft or Bribery
 - False Statements
 - False Claims
 - Mail or Wire Fraud
- Subject to criminal prosecution, civil penalties, fines, and restitution.

Grant Fraud Investigations

Example 1 – Head Start CFO

- Received \$13 million a year.
- Co-defendant operated a shell realty company.
- CFO funneled \$1.1 million from renovation projects.
- Used Grant funds to pay:
 - Personal bills
 - College tuition for relatives
 - Maintained a mistress

Grant Fraud Investigations

- CFO was able to embezzle funds due to:
 - Circumventing internal controls
 - Sole check writer
 - Only person to reconcile bank account

- Prosecution results:
 - 51 months confinement
 - 3 years supervised release
 - Restitution

Grant Fraud Investigations

- Example 2 – Chief of Family Services received grant funds for programs for foster children and adopted children.
- Allegations included:
 - \$35,000 for travel to Israel
 - \$18,000 in consulting services by Chief
 - \$2,700 in catering expenses
 - \$15,000 in building renovations in Israel
 - False Claims, Conspiracy, Obstruction of Justice

Grant Fraud Investigations

- Prosecution results:
 - 6 months of home confinement
 - 100 hours of community service
 - 2 years probation
 - \$250,000 criminal fine
 - \$274,000 restitution
 - Debarment
 - Precludes dishonest and incompetent parties from receiving Federal funds for a period of time, usually 3 years.

Grant Fraud Investigations

- Example 3 – Tucson based high-tech company was awarded a Small Business Innovation Research funding grants.

Allegations include:

- Forged documents for multiple years
- Used non-existent venture-capital firm to funnel funds out
- Plagiarized research results
- Damages are at least \$9 million.

Managing Grant Fraud

PREVENTION

Tone at the Top

Value System/Code of Conduct

Positive Workplace Environment

Training/Awareness

Whistleblower Program

Incident Response

Disciplinary Examples

DETERRENCE

Oversight

Risk Assessment

Internal Audit

Data Analysis

DETECTION

Monitoring

Computer-aided Tools

Loss Mitigation

Steps in the Process of Designing Controls to Prevent Fraud

- Review the organization level components of internal control and identify weak or nonexistent controls.
- Identify assets (and related transactions) susceptible to misappropriation.
- Review the organization's systems and procedures relating to the vulnerable areas and identify weak or missing systems and procedures.
- Develop controls to reduce the risk of misappropriation in the vulnerable areas.
- Consider the cost/benefit relationship of the controls developed.

Fraud Check-Up: 5 Best Practices

- Emphasis is on **Prevention** over Detection
- Establish the appropriate tone at the top
- Code of ethics circulated and enforced
- Mechanisms for fraud reporting exist (i.e. Whistleblower Program)
- If you have segregation of duties issues then frequent audits are performed

Government Standards – Federal Controls

- Management's Responsibility for Internal Control – OMB Circular A-123
 - Standards
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication, and
 - Monitoring
 - Integrated Internal Control Framework
 - Assessing Internal Control
 - Correcting Internal Control Deficiencies
 - Reporting on Internal Control

Government Standards – States

- OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations
- OMB Circular A-133 Compliance Supplement
- Government Auditing Standards (Yellow Book) Issued by the Government Accountability Office (GAO)
 - Financial Audits
 - Attestation
 - Performance Audits
- State Auditing Act
- Ethics Act(s)
- Special Legislative “Audits”

Conflicts of Interest

Definition (2004 Law Encyclopedia): a situation in which a person has a duty to more than one person or organization, but cannot do justice to the actual or potentially adverse interests of both parties. This includes when an individual's personal interests or concerns are inconsistent with the best for a customer...

Description: Any scheme in which an employee, manager or executive has an undisclosed economic or personal interest in a transaction that adversely affects the company as a result.

Example: An employee owns an undisclosed interest in a supplier. The employee negotiates a contract between his employer and the supplier, purchasing material at an inflated price.

Finding Existing Conflicts

- Compare vendor addresses to employees.
- Payroll information
- Review of accounts receivable for unusual activity.
- Review of accounts payable

How to Manage Potential Conflicts

- Pre employment
 - Keep the conflicts out by having policy as part of pre employment process.
 - Have knowledge of the potential risk.

- Pre contract
 - Include certification as part of RFP process.
 - Recertify each year, each contract term, each project.

The 3 Musts of Policies

- Must be Simply Stated
 - Use as few words as possible
 - Be direct
- Must be effectively communicated
 - Do not write it and then hide it.
- Must be acknowledged
 - Signatures

How to Manage Potential Conflicts

- **CONFLICT OF INTEREST – XYZ County**
 - It shall be a breach of ethical standards for any employee or agent acting in behalf of XYZ County to directly or indirectly participate in or benefit from a procurement when employee, agent or his immediate family has a financial interest in the business or organization.

- Independence in fact and appearance.

Disclosure

- Policy allows for disclosure of conflicts arising in the course of business without fear for position.
- Committees and boards need to have a mechanism whereby members can remove themselves from procedures.
 - How to notify
 - When to notify
 - What happens if there are tie votes.

Found a conflict -- Now what?

- Get the facts
 - Objectively determine who is involved.
 - What area does the conflict encompass.
 - The amount of activity affected.
- Do not automatically terminate employee
- Seek legal counsel's advice
- Make a decision about what resolution would be.
- Prepare a public statement and have a designated spokesperson.

Take Aways

- Identify Risk
- Address Risk
- Document – anti-fraud framework
 - Know policies and procedures
 - Know what organization's fraud policy is
 - Understanding of identified risks and priority of identified risks
 - Procedures to mitigate identified risk – continuous monitoring
 - Policy addressing responsibilities if fraud is suspected

Fraud Websites to Consider

- Organizations
 - American Institute of Certified Public Accountants Anti-Fraud Resource Center: www.aicpa.org/antifraud
 - Association of Certified Fraud Examiners – www.acfe.com
 - Institute of Internal Auditors – www.theiia.org
 - Society of Professional Investigators – www.spionline.org
 - Crowe Horwath LLP – www.crowehorwath.com
 - Committee of Sponsoring Organizations – www.coso.org
- Report Scams Here - www.fraud.org
- Beware of Identity Thieves - www.consumer.gov
- Fight Fraud with Pros - www.usdoj.gov/criminal/fraud/websites/idtheft.html

Questions

BREAK

HOW MUCH VALUE ARE YOU GETTING FROM PERFORMANCE MEASURES?

Agenda

Welcome

- What is “performance management”?
- Introduction to performance measures

AGA Research Approach

- Goals and methodology

Key Findings

- High-level overview
- Categorized elements

Applying This Research in the Real World

- Assess your current program
- Moving to the next level

Conclusion and Discussion

What is “Performance Management”?

Government at all levels have always been under pressure to deliver quality services with accountability (and limited resources).

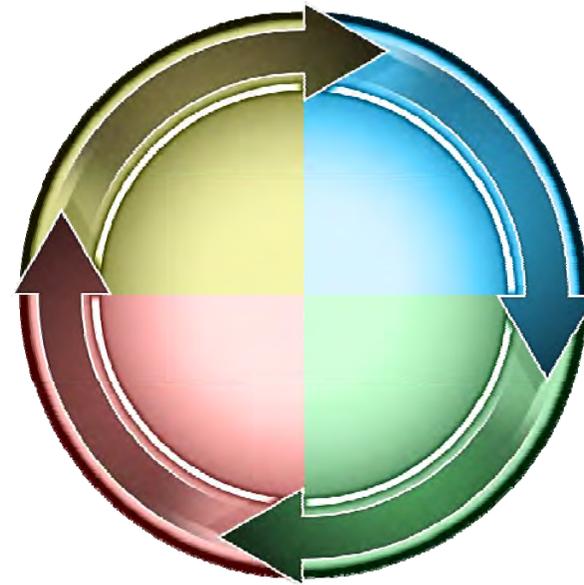
Increased economic pressure and heightened public demand for transparency push government agencies to leverage existing programs more effectively. This requires the coordination and control of hundreds or even thousands of activities distributed across multiple levels of government and organizational structures.



Performance management provides **a framework for communicating, coordinating, and controlling these activities**. When done right, it can reduce costs while improving enterprise outcomes. It can tie high-level strategic goals with the tactical steps that will help get you there.

Performance Management Components

- **Engaging stakeholders**
- **Selecting performance goals**
- **Measuring performance**
- **Improving performance**
- **Communicating performance**
- **Budgeting for outcomes**



Performance management programs may focus on one or two components, or may have an **integrated** approach coordinated across the enterprise.

Performance Measures

Government typically uses performance measures for three purposes:

- **Demonstrate accountability**
To citizens, to elected officials, to funding sources
- **Allocate resources**
To focus budgets on areas that provide results
- **Improve service delivery**
To identify areas that need improvement, to set goals, to change processes

In some cases, the same measure may be used for more than one purpose, and the system that captures and reports the measures may be multitasked.



AGA Research Project

Crowe sponsored a research project with the AGA, and we were fortunate to retain Harold Steinberg as the primary researcher. The goals of the research were:

- 1) To assess the extent to which performance management techniques are currently used within state and local government.
- 2) To ascertain how **performance measures** can and are being used by state and local governments to improve the delivery of services.

The research included an online survey and interviews with agencies from five locations:

- New York City
- Baltimore
- Westminster, Colo.
- Fishers, Ind.
- State of Washington

Key Findings

- 1) Government units of all sizes and types are using performance measures in an attempt to improve service delivery.
 - These tools and techniques are not limited to large, complex organizations, nor are they limited to any one branch of government.
 - Smaller organizations can achieve similar results by focusing on basic principles.
- 2) Programs often start with the selection and use of **output** measures, which are measures of the *quantity* of services provided.
- 3) Most programs try to move toward **outcome** measures, which are measures of the *results* associated with the delivery of a service.
 - Outcomes are not always within the control of the unit delivering the services, and it is generally more difficult to obtain these measures.
 - Outcome measures provide a more accurate view of the total value generated through programs and activities.

Key Findings (continued)

- 4) Even within performance measurement (a subset of performance management), there are multiple related elements. Based on the research, these elements can be grouped into three categories.
- **Essential** – elements critical to the success of using performance measurements to improve service delivery.
 - **Supporting** – elements that are valuable and often lead to the increased success of a performance measurement program.
 - **Ancillary** – elements that can significantly enhance an entity's ability to improve service delivery, but are often not included within a performance measurement program.
 - Ancillary elements are often related components within the performance management arena.

Categorized Elements

Essential Elements

Those with the greatest impact on the success of a performance measurement program.

1. Executive leadership commitment and involvement in the process.
2. Relevant measures of key outputs, with a goal of measuring outcomes.
3. Periodic review and revision of the performance measures.
4. Consistent collection of performance data over time.
5. Comparison of performance data to prior periods.
6. Regular review and analysis of performance results.
7. Executive leadership and senior management involvement in the ongoing measure reviews and analysis.
8. Agreement between executive leadership and divisional leadership on improvement plans.
9. Follow-up on results from improvement plans.

Categorized Elements (continued)

Supporting Elements

Elements that provide high value and often lead to the long-term success of a performance measurement program.

1. Clear (explicit) targets for each set of performance measures.
2. Frequent comparison of performance data to targets.
3. Comparison of performance data to similar data from other jurisdictions.
4. Support staff involvement in the reviews and analysis of performance results.
5. Budget reviews and deliberations organized around performance targets and results.

Categorized Elements (continued)

Supporting Elements (continued)

Elements that provide high value and often lead to the long-term success of a performance measurement program.

6. Budget resources allocated to programs rather than solely to object classes.
7. Systems in place for obtaining and prioritizing constituents' needs and opinions.
8. Documented process for ensuring data reliability.
9. Regular dissemination of performance results in formats that are easily accessible to internal and external stakeholders.

Categorized Elements (continued)

Ancillary Elements

Elements that can significantly enhance an entity's ability to improve service delivery, but are often not included within a performance measurement program.

1. Strategic plans for the agency and/or departments.
2. Legislative branch involvement in the process.
3. A cost accounting system or other way to track the cost of delivering services.
4. Team or individual evaluations based at least partially on measured performance.
5. External stakeholder involvement in the process.

Applying This Research in the Real World

State and local governments are at different stages of planning, implementing, and evolving performance management programs. These programs are typically tailored to meet the specific needs of each entity, focusing on different components over time.

For example ...

Agency X

- Highly effective in process improvement, with mature processes to select appropriate goals.
- May be ready to shift from output measures to outcomes.
- May get the biggest return on time/money invested by focusing on communicating the results.

Performance Management Maturity Model

Maturity Level	Stakeholder Engagement	Goal Selection	Outcome Measurement	Process Improvement	Ongoing Communication
5					
4				Green	
3		Green		Green	
2	Yellow	Green		Green	Yellow
1	Yellow	Green	Yellow	Green	Yellow

Applying This Research in the Real World (cont.)

Overarching questions:

- **How does your current program map against a performance management maturity model?**

Which components are strength areas? Which are areas of current focus or priority?

- **Which components offer the highest return from additional focus and improvements?**

Do you get more value from moving several components from ground zero to medium, or from boosting one or two components from medium to high performance?

- **Are your resources aligned with the components where you want to make the biggest gains?**



Applying This Research in the Real World (cont.)

If you're just starting a performance management program ...

1. Start with executive buy-in.

- Clearly identify the champion at the highest level who is committed to making performance management successful and who will be actively involved throughout the process.

2. Invest the time in choosing the right measures.

- Consider the data you already have or can get easily.
- Aim for outcomes, but be realistic and use outputs to get the process started.

3. Identify how you'll use the data.

- Before committing time to the collection, document how and when the data will be reviewed, what it will be compared to, and who will be involved in applying the results.

4. Keep the improvement plans simple at the beginning.

- Build consensus between executive leadership and divisional leadership on realistic improvement plans.
- Incorporate results from improvement plans into the ongoing communication plan.

Applying This Research in the Real World (cont.)

If you want to get more value from your existing program ...

1. Establish and refresh targets.

- Clearly defined and explicit targets by performance indicator will help make trends and results from changes in the service delivery more apparent.
- Targets can be updated regularly as conditions and performance change.

2. Increase the frequency of comparisons.

- If you're comparing against past performance or targets on an annual or semiannual basis, consider moving to a monthly schedule to identify leading indicators.

3. Expand your benchmarks.

- If you're comparing only to your own performance, consider external benchmarks from similar jurisdictions or even private industry. Identify and build pride in strength areas.

Applying This Research in the Real World (cont.)

If you want to get more value from your existing program ...

4. Integrate the budgeting process with performance measures.

- Outcome-based budgeting and citizen-centric budgeting both connect the inputs (dollars) to the outcomes (improved social conditions).

5. Strengthen the connection between performance measures and strategic plans.

- Ideally, the strategic plan is the source of outcome targets. If you're measuring outputs that don't lead to a strategic goal, reconsider the value of that measurement.
- Strategic plans are also a good way to connect activities with budgets.

6. Review the bookends of performance management.

- Engaging your stakeholders, including citizens, can be a powerful way to review and update program priorities.
- Communicating the results of performance management (the improved social conditions, the outcomes) can build internal confidence and external support. It also leads to the next round of gathering input from citizens and partners.

Questions

CONCLUSION AND DISCUSSION (GO HOME)



 Crowe Horwath™