Effective Preliminary Surveys

Presented by:
UCSF Audit Services

Session Objectives

- IIA Professional Standards requirements for preliminary surveys
- Best practices followed by your colleagues at other UC campuses
- Walk through an approach to conducting a preliminary survey

Why is an effective Preliminary Survey so important?

- Determines the objectives and scope of the audit
- Helps focus audit resources to significant risks , thereby providing greater value to management
- Assures the quality and efficiency of the review
- Provides a better understanding of the activity being reviewed
- Determines what needs to be done, how and when
- Determines resources that needs to be allocated
- Compliance with Professional Standards

IIA International Standards

⊙ Professional standards requires that in planning an audit engagement the internal auditor must consider:

- The significant risks of the activity, its objectives, resources and operations
- The adequacy and effectiveness of the activity's risk management and control processes

IIA International Standards (2)

- Objectives must be established for each engagement (*Standard# 2210*)

- Auditors must conduct a preliminary assessment of the risks relevant to the activity under review

- Engagement objectives must reflect the results of the assessment (*Standard # 2201.A1*)

Challenges in conducting a Preliminary Survey

- Most difficult and challenging part of the audit process
- Steep learning curve
- Business objectives and metrics
- Striking the right balance
- Identifying the right risks
- Spending too much time on PS
- Preliminary survey creep

Common Campus Practices

- All Campuses differ somewhat in their approach in conducting the Preliminary Surveys (PS)

- Most capture background information, financial data, regulatory and policy information, major functions, automated systems and risk evaluation

Best Practices

- Use of Internal Controls Questionnaire (ICQ) to identify high risk areas and controls

Sample ICQ

Dept/Div Name: Date:

CONTACT NAME:

PAYROLL EXPENSES
http://www.ucop.edu/acadadv/acadpers/apm/welcome.html

		YES	NO	COMMENTS	Risk H=High, M=Med, L=Low
1	How many academic and staff in the Department/Division submit timesheets verses HBS? (vacation, sick leave & other)			The department has moved to HBS for staff.	
2	How is leave documented, reported and approved?				
3	Have the HBS preparer and reviewer attended training?	X			
4	Are employees required to submit written requests for leave?		X	Requests for leave may be submitted verbally.	

PS Best Practices

- Use of Internal Controls Questionnaire (ICQ) to identify high risk areas and controls

- Use of Separation of Duties Matrix (SOD) to identify proper internal controls

Sample SOD Matrix

	Analyst III	Manager	Admin. Asst. III	Admin. Asst.	Analyst I –	Analyst IV		
(Enter "P" or "A" for employee(s) assigned responsibility for each function or "N/A" to the right of each function that is not applicable)								
Payroll & Personnel:								
Prepares PPS transactions for: Staff appointments	P							
Academic appointments	P							
Undergrad. student appointments	N/A							
Grad. student appointments	P							

Best Practices

- Use of Internal Controls Questionnaire (ICQ) to identify high risk areas and controls

- Use of Separation of Duties Matrix (SOD) to identify proper internal controls

- Use Computer Assisted Auditing Tools (CAATs) to perform financial and transactional data analysis to identify potential risk areas

Sample ACL Query

PS Best Practices

- Use of Internal Controls Questionnaire (ICQ) to identify high risk areas and controls
- Use of Separation of Duties Matrix (SOD) to identify proper internal controls
- Use Computer Assisted Auditing Tools (CAATs) to perform financial and transactional data analysis to identify potential risk areas
- Use of a risk matrix that details the risks identified, expected controls, risk rating and proposed test work

Sample Risk Matrix

Category 1 ICQs	Description of Controls	Risk Summary Why include or exclude	Risk Rank
Department Overall	The department has a central administration function and PI labs. Central administration provides HR, IT, pre-award, purchasing and other general administrative support. The department has an operating budget that is revised throughout the year base on changing circumstances.	The department reviews and revises its operating budget throughout the year. No testing planned.	Low
Financial Systems	The department utilizes a financial management system (EBI). The department uses EBI to download financial data from campus systems (OLFS and OLPPS), incorporate other data (i.e. pending expenses) and generate financial projections. The financial position of the department is assessed quarterly. RSAs discuss the budget status with PIs and to plan for changes.	The department regularly assesses its financial position. The department uses EBI to generate financial reports. No testing planned.	Medium

Best Practices (2)

- Hold pre-planning discussions to brainstorm risks with audit staff/managers
- Research subject area(s) and probe with internal contacts for known problems and concerns previously raised
- Assignment of an initial project budget just for the PS work and allocating a permanent project budget after completion of the PS based on risk areas to be audited
- Meet with clients toward the end of the PS to validate information and obtain feedback on risk areas

Food Services

A Preliminary Survey Case Study

Preliminary Survey Program

- Interview management on business objectives
- Organization chart(s)
- Review department procedure manuals
- Analyze financial and business Information
- Review regulatory and University requirements
- Assess information technology environment
- Review previous audit work papers and reports
- Conduct interviews with relevant department personnel
- Assess for fraud risks exposure
- Create risk matrix

Case Study: Background

Why in the Plan → **Known Risks** → **Importance**

Case Study: Business Objectives

Mission Statement

Goals and Objectives

Metrics

Case Study: Regulatory/Policies

Federal and State Laws

University Policies

Department SOP

Case Study: Major Functions

Meals to Patients | Cafeteria Services | Catering

Case Study: Data Analysis

| Organization structure | Staffing, Financial, Payroll | Business Volume and data |

Case Study: Information Systems

System Process Flows

System Controls

Mitigating Controls

Case Study: Risk Matrix

Key Functions

Controls and Weaknesses

Risk Ranking

Food Services Risk Matrix

Business Objective	Risks	Risk Assessment	Testing?	Controls	Testing Plan
What does the unit do? What is its purpose? What services is it providing (or supposed to be providing) to the University? What are its major functions?	What would prevent the unit from being able to accomplish its business objectives? What things could go wrong? What would happen if the unit couldn't or didn't perform its intended functions? Consider both internal and external risks.	**Significance** - What would be the impact on the university (or the function) if the risks materialized and the unit couldn't perform its major functions? How significant would the ramifications be? **Likelihood of Occurrence** - How likely is it that these risks would materialize?	Based on the risk assessment, is testing to be performed? Only **high** risks should be tested. (**Yes or No** response)	What processes are in place to prevent the risks from occurring? What processes are in place to ensure the unit can perform its intended functions? What controls have been designed to help the unit meet its business objectives?	What tests should be performed to evaluate whether the controls (processes designed to ensure that the unit can effectively perform its intended functions) are adequate and effective?
Objective #1 To assure that there is sufficient cost recovery to support service operations.	a. Price setting and Recharge rate methodology does not capture total costs. b. Clients not charged for services provided.	High Significance – Food Services could run an operating loss affecting the viability of the operations. Likelihood - Medium	Yes	- Daily sales / revenue reports reviewed by Management - Monthly reconciliation of catering orders to recharge journals - Quarterly reporting of sales : cost of goods ratio monitored for all lines of services. - Recharge rate proposal prepared by Finance Manager; reviewed and approved by Director. Budget Office approval of recharge rates.	1. Review recharge cost allocation methodology and verify that all costs are identified and included to assure there is full cost recovery 2. Select a sample from the calendar of catering l events and trace to price quotation and to recharge journal to assure completeness and accuracy of recharges.

Clients Feedback

Meet with client(s) after completion of the preliminary survey to solicit feedback on the audit objectives identified for the project. Additionally, this is the opportunity to confirm the timeline

Case Study: Resource Allocation

| Staffing and Hours | IT Resources | CAATs |

Final Steps

- Complete documentation
- Supervisor sign-off
- Create and sign off audit program
- Begin fieldwork

Questions ???

Contact Information

Rick Catalano – Audit Director

Rick.Catalano@UCSF.edu

(415) 502-2238

Zuleikha Shakoor – Senior Associate Audit Director

Zuleikha.Shakoor@UCSF.edu

(415) 476-9543

Tom Poon – Associate Audit Director

Tom.Poon@UCSF.edu

(415) 514-0435