
STATE AUDIT UPDATE

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OVERVIEW

-
- OAG background information
 - MCL updates
 - OAG organization
 - OAG and other state auditor offices
 - Audit planning/selection
 - Tips for preparing for an audit
 - Standard changes, emerging items, tool changes
 - Questions

Established in the Constitution

- Article IV, Section 53

Appointed by majority vote of both Houses of the Legislature

- Must be a CPA
- 8-year term
- Ineligible for public office while serving and for two years after service

Our Mandate

- Conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by constitution or by law, and performance post audits thereof.

OAG BACKGROUND

Other:

- May employ CPA firms or legal counsel
- Make investigations pertinent to the conduct of audits
- Annually report to the Legislature and Governor
- Have no other duties than those specified in Section 53
- All staff, except the Auditor General and Deputy Auditor General, have classified civil service status

OAG BACKGROUND, *continued*

MCL 13.101 UPDATES

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- Re-affirm access to all records, notwithstanding other provisions of the law
 - Clarify that access includes confidential and electronic records
 - Incorporate AG opinion:
 - that OAG is subject to same laws and penalties
 - that OAG can access records of one agency for the audit of another agency
 - Carve out for attorney-client privilege records
 - Exempted information gathered for audits from FOIA

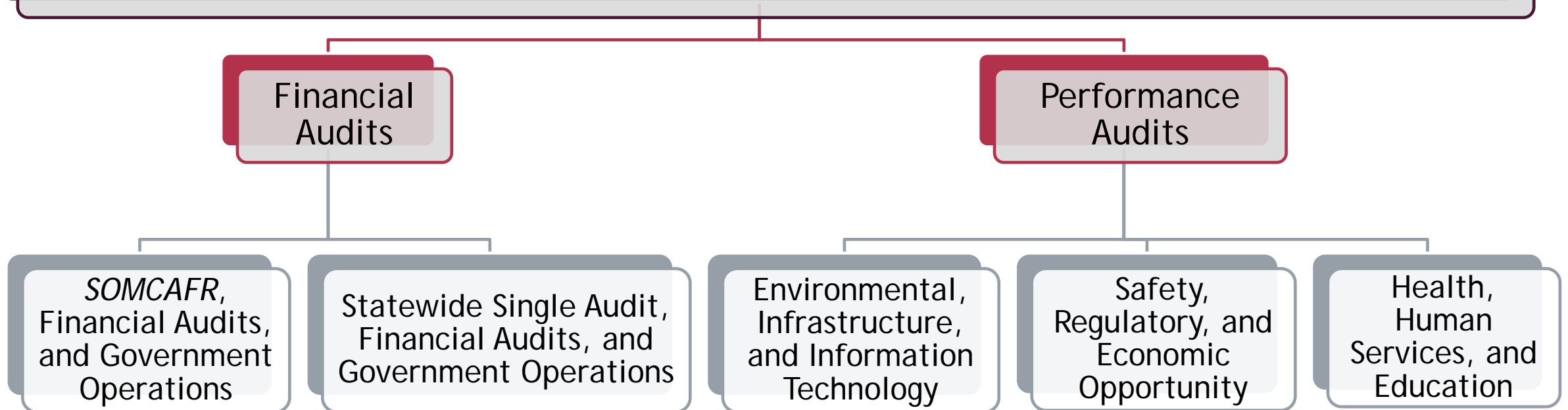
ATTENDANCE CHECK



OAG ORGANIZATION

Five Areas:

1) Bureau of Audit Operations (BAO) is responsible for the audit work. It is organized into 5 functions.



OAG ORGANIZATION, *continued*

- 2) **Office of Professional Practice (OPP)** is responsible for quality assurance of audit workpapers and reports and conducting accounting and auditing research.
- 3) **Office of Information Technology (OIT)** is responsible for all OAG networks and information systems, specialized data extraction and analysis, computer hardware and software, and security training.
- 4) **Fraud Investigative Services Team (FIST)** is responsible for audit work related to fraud, waste, and abuse in State government. FIST also advises OAG staff and collaborates with other entities regarding fraud related concerns.
- 5) **Administration** is responsible for human resources, accounting and budgeting, report production, and office-wide printing, purchasing and clerical support.

AUDIT SERVICES

Direct Audit Hours	2017	2018	2019
Financial	39%	50%	54%
Performance	61%	50%	46%

Financial Audit Hours	2017	2018	2019
Statewide Single Audit	42%	41%	38%
<i>SOMCAFR</i>	38%	38%	46%
Other Financials	20%	21%	16%

AUDIT SERVICE, *continued*

Performance Audit Hours	2017	2018	2019
Safety and Regulatory	9%	24%	25%
Education	9%	14%	18%
Information Technology	18%	17%	17%
Transportation & Public Assistance	26%	15%	15%
Health	9%	9%	10%
General Government	25%	15%	10%
Environment	4%	6%	5%

OAG AND OTHER STATE AUDIT OFFICES

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- NASACT Auditing in the States
 - Sends a survey every year to state auditors and publishes the response for its members.
 - The most recent publication is from 2019
 - 53 audit agencies representing 48 states responded to the survey
 - 19 elected
 - 36 appointed (2 did not respond, information added from another source)

STATE AUDITOR AND DEPUTY OR CHIEF ASSISTANT CERTIFICATION

Certification	Agency Head	Deputy or Chief Assistant	Michigan	
			Agency Head	Deputy or Chief Assistant
CPA	24	48	•	•
CFE	6	10		
CGFM	1	10		
CISA	2	4		
CIA	1	9	•	

STATE AUDITOR BUDGETS (2019)

Range	Number of Offices	Low - High - Michigan
Less than \$10 million	23	West Virginia (\$721,279)
\$10 million to \$25 million	16	Michigan (\$24.9 million)
\$25 million to \$50 million	11	
Greater than \$50 million	1	Ohio (\$87.4 million)
Did not report	5	

STATE AUDITOR STAFF YEARS OF EXPERIENCE

Title	State Audit Offices' Average	OAG Average
Audit Manager	20.0	24.0
Supervisor	14.5	15.0
Upper Level Auditor	9.6	7.0
Middle Level Auditor	5.0	4.0
Entry Level Auditor	2.0	0.5

STAFFING

Separate Team Function	Number of State Offices	OAG
IT audits	31	
Medicaid audits	10	
Forensic audits	8	
Quality Assurance	20	•
Data Analytics	15	•
Fraud Investigations	7	•

Positions	Number of State Offices	OAG
Attorney	28	
Actuary	1	
Statistician	3	
Economist	3	
Data Scientist	3	
Training Director	19	•
Subject Matter Experts	3	

STATE AUDITOR TURNOVER RATES

Turnover Percentage	Number of States	Michigan
5 - 10%	15	5%
11 - 15%	20	
16 - 20%	9	
21 - 25%	3	
Greater than 25%	4	
Did not report	5	

WHO AUDITS THE STATE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) AND SINGLE AUDIT?

State Auditor or CPA Firm	CAFR	Single Audit	Michigan
100% State Auditor	7	17	
State Auditor and CPA firm	32	18	•
100% CPA firm	11	15	

STATE AUDITORS WITH LOCAL GOVERNMENT AUDIT RESPONSIBILITY

29 State audit agencies, including Puerto Rico, audit local governments. Michigan does not audit local governments. The most common types:

School districts (21 respondents)

Counties (21 respondents)

Cities, towns, and villages (17 respondents)

Non-profit/for profit organizations receiving federal/state funds (7 respondents)

ATTENDANCE CHECK



Fluid and flexible

Art and a science

Mandated audits

Discretionary audits based on risk:

- Qualitative
- Quantitative
- Program level

Staffing availability

Audit plan notifications

AUDIT PLANNING AND SELECTION

A TYPICAL FINANCIAL AUDIT



Generally Mandated



Standard Audit Objectives



Independent Auditor's report is usually included in agency published financial statements



Internal control reports are required to be issued within 60 days of the financial audit opinion publication

A TYPICAL PERFORMANCE AUDIT

List of items we usually need to get started that can be provided before the entrance meeting.

Start with a preliminary survey to determine if there is enough risk to warrant an audit. This includes:

- Gaining an understanding of processes and controls
- Identifying criteria
- Performing some audit procedures - a mini audit

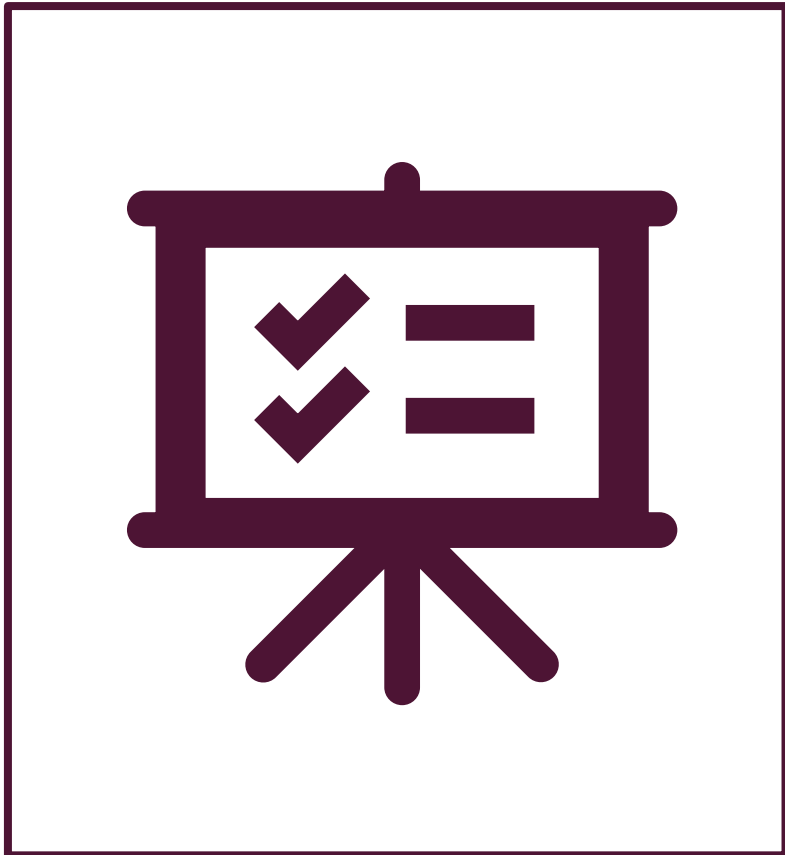
If we do not go forward, we stop and issue a preliminary survey summary to inform the Legislature and others of our intention.

A TYPICAL PERFORMANCE AUDIT, *continued*

If we go forward with an audit, we:

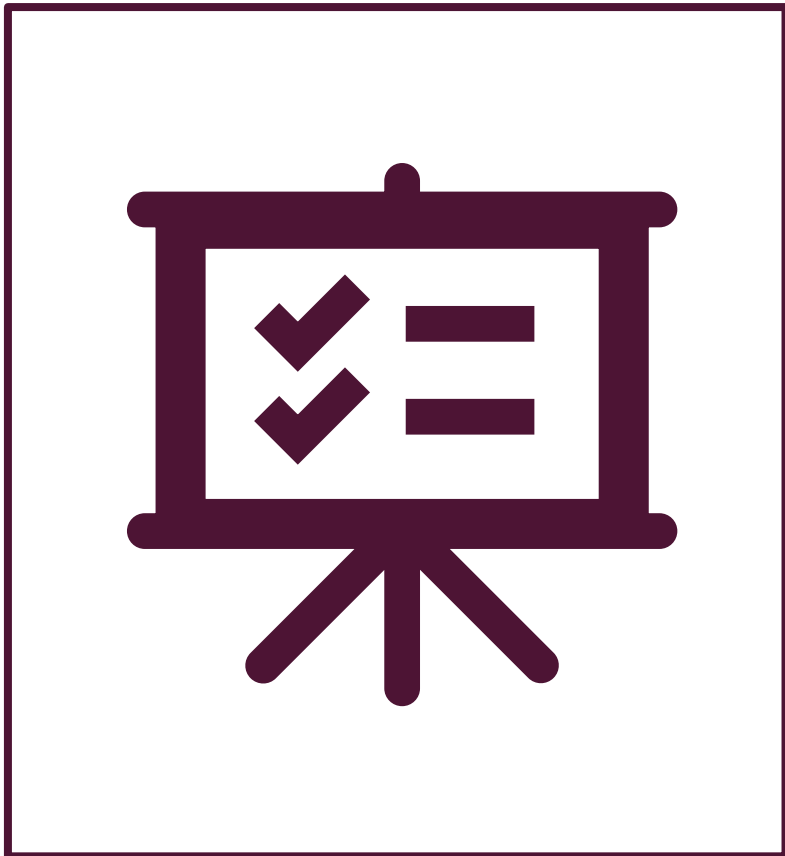
- Develop the objectives, scope, and methodology
- Obtain and evaluate audit evidence
- Compile the report, including:
 - Extensive quality assurance process
 - Auditee input and response
- Issue the report

TIPS



- Name a contact person that has enough seniority to be knowledgeable about your operations and have access to update internal stakeholders, including management.
- Identify special laws or rules around data - we must comply with those too; we will share safeguards and assurances.
- Know your business processes - ICE can be a good starting point
- Be open - we are required to validate everything, and we keep coming back to reassess or confirm our understanding

TIPS, *continued*



- Let the person that does the work talk with the audit team - as management you will see all findings and issues long before they hit the street.
- Take advantage of status meetings and ask questions; we may not be looking in the right direction or have all relevant information.
- Vet potential exceptions as soon as they are brought up.
- Acknowledge audit value: opportunity to assess big picture, leverage audit experiences, and facilitate improvements

ATTENDANCE CHECK



WHAT IS HAPPENING IN THE WORLD OF GOVERNMENT AUDITING?



- New Yellow Book
 - Effective for performance audits July 1, 2019 and for the financial audits for periods ending on or after June 30, 2020
 - New format and organization
 - Independence requirements for non-audit services
 - Continuing Professional Education (CPE)
 - Peer Review requirements
 - Waste and abuse
 - Audit finding guidance
 - Standards for financial statement reviews
 - Internal control documentation requirements for performance audits

WHAT IS HAPPENING IN THE WORLD OF GOVERNMENT AUDITING?, *continued*



- Use of artificial intelligence
- Continuous auditing
- HR issues - attracting and retaining talent
- Telecommuting

CONTACT INFORMATION



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