## Internal vs. External Audits

<table>
<thead>
<tr>
<th>Internal</th>
<th>External</th>
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</thead>
<tbody>
<tr>
<td>* Objectives determined by the board</td>
<td>* Audit work is done by a Certified Public Accountant who is independent of the Organization</td>
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<tr>
<td>* Audit work is done by individuals associated with the Organization</td>
<td>* Tests controls and risk factors</td>
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<tr>
<td>* Concentrates on internal controls &amp; procedures</td>
<td>* Attest to whether the financial statements are in compliance with GAAP</td>
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<tr>
<td>* Issues a report on findings and recommendations</td>
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Audits - Internal

• Why an internal audit?
  * Provide assurance that the Organization is operating efficiently,
  * Provide assurance that assets are safeguarded,
  * Provide assurance that the Organization is compliant with prescribed laws & policies
  * Provide assurance regarding the economical & efficient use of resources
  * Review the integrity of financial statements for reasonableness and accuracy

Audits - Internal

• What you should get out of an internal audit:
  * Documentation on what areas, if any, need improvement
  * Self-regulation to determine if Policies & Procedures are being followed
  * Suggestions for increased efficiency and accuracy

Audits - Internal

• What are the steps?
  * Planning the audit
  * Performing the audit
  * Documentation
Audits - Internal

- Planning step:
  - Who will be responsible for the internal audit
  - Well defined objectives
  - Determine the scope
  - What criteria should be considered

Audits - Internal

- Performing the audit:
  - No single 'right' or 'wrong' way to accomplish an internal audit
    - Look for opportunities to improve processes
    - Look for best practices
    - Look for weaknesses in the system

Audits - Internal

- Important factors in an internal audit:
  - Auditor needs to be prepared
  - Needs to be objective & independent
  - Needs to be able to exercise sound judgment
  - Needs to be able to maintain confidentiality
Audits - Internal

- Ask questions – auditing isn’t just about looking at the numbers, it is looking at the procedures, policies and attitudes in an organization
- Gather objective evidence
  - Membership numbers
  - Meet registrations
- Keep good notes

Audits - Internal

Testing of procedures:

- If a weakness in a procedure is noted it should be analyzed to determine if it was an isolated incident or if it is systemic
- Testing may need to be expanded to make a determination

Audits - Internal

Documentation:
- What to document:
  - Scope & Criteria
  - What you are doing
- Objectives
  - Why you are doing it
- Findings
  - Results of audit work
Audits - Internal

- Report
  - Delivered to the Board of Directors
  - Include the scope of work
  - Results of the audit
  - Maintain confidentiality

Audits - Internal

- Checklist of sample procedures to follow is included at the end of these materials
  
  - These should be used as a guideline

External Audits
Audits - External

- **Difference between a Compilation, Review and Audit**
  - Compilation – most basic level of service CPAs provide with respect to financial statements.
  - Takes information provided by the Organization and puts it into financial statement format; no assurance is provided that the statements are in accordance with GAAP.
  - A compilation is less in scope than an audit or a review.

- **Difference between a Compilation, Review and Audit - Continued**
  - Review – the CPA performs inquiry and analytical procedures in addition to services provided in a compilation.
  - A review report states that it has been performed in accordance with AICPA professional standards, and that the CPA did not become aware of any material modifications that should be made to the statements in order for them to be presented in accordance with GAAP.
  - A review is less in scope than an audit.

- **Difference between a Compilation, Review and Audit - Continued**
  - Audit – is the highest level of assurance services provided by a CPA.
  - All the steps performed in a compilation or a review are completed in an audit, but the CPA also performs verification and substantiation procedures.
  - An audit of the financial statements results in the auditor issuing an opinion on whether or not the financial statements are fairly presented.
Audits - External

• How to prepare for your audit:
  * Reconcile your balance sheet and income statement accounts
  * Prepare documents which substantiate significant account balances in your statements
  * Gather documents requested by your auditor

Audits - External

• What do you have to provide?
  * Any items that the auditors request should be provided
  * Questions should be answered honestly
  * Any information you are aware of that could have an impact on the results or findings of the audit must be disclosed to the auditors

Audits - External

• What a financial statement audit is:
  * Review of internal controls
  * Transaction testing
  * Verification of data
  * Review of areas susceptible to fraud
  * Review of financial statements to determine if the statements are presented in accordance with Generally Accepted Accounting Principals (GAAP)
Audits - External

• Management Representations
  • At the conclusion of the financial statement audit, you will be expected to provide a written representation which states you have provided all documentation requested by the auditors, you have answered all questions honestly & to the best of your ability, there is no fraudulent activity that you are aware of that you have not disclosed to the auditors

Audits - External

• You will receive from your auditor:
  • An audit report which will include:
    • The auditor’s opinion
    • A complete set of financial statements, including a Statement of Financial Position, Statement of Activities, Statement of Cash Flows
    • Disclosures relevant to the statements
    • Management recommendations

USA Swimming

Treasurer’s Workshop
Disbursements
Approvals, Signatures & Remote Issues

- Disbursements
  - Process for authorizing purchases
  - Receipt of invoice
  - Invoice approval process

- Checking account
  - Setting up the account
  - Authorized signers
  - Reconciliation procedures
  - Dual signature requirements
Disbursements
Approvals, Signatures & Remote Issues

- Athlete reimbursements
  - Accountable plan
  - Non-accountable plan

Disbursements
Approvals, Signatures & Remote Issues

- Credit card usage
  - Receipts
  - Authorization process

Disbursements
Approvals, Signatures & Remote Issues

- Remote accounting issues
  - Logistics
  - Accountability
  - Checks & balances
Fraud Definition
What exactly is fraud?
- An error?
- A misrepresentation of fact?
- Intentional or unintentional?
Fraud Prevention

- According to the 2010 Report to the nations on Occupational Fraud and Abuse, Five percent of annual revenues are lost to fraud
  - That's $5,000 for every $100,000 in revenue that is generated
  - Fraud may be a more significant problem for small companies
  - Experts believe that the majority of fraud is never detected

The Fraud Triangle

Attitude/Rationalization

Opportunity

Incentive/Pressure

Fraud Risk

Attitude/Rationalization

- Probably the most crucial component in most frauds
  - Belief that the fraud is justified
  - Belief that there is no other way to get through a personal situation
  - Belief that they are 'borrowing' the money and they will pay it back
  - Inability to understand/doesn't care about the consequences
Incentive/Pressure

- The criteria that causes a person to commit fraud
  - Can come from many different areas
    - Medical bills
    - Addictions
    - Greed

Opportunity

- The ability to commit fraud
  - Must believe that their actions won’t be detected
  - Weak internal controls
  - Poor oversight
  - Misuse of position/authority

  This is the area organizations have the most control over

Red Flags to Watch For

- Common Personality Traits
  - Controlling
  - Irritated if anyone wants to review their work
  - Live beyond their means
  - “Too good to be true” work performance
  - Won’t take a vacation, or only take a small time away/don’t want anyone to do their work while they are gone
Red Flags - Continued

- **Common Sources of Pressure**
  - Medical bills, especially family members
  - Loss of other household income/divorce
  - Living beyond their means
  - Need to “out-do” others
  - Gambling problems/drug or alcohol addiction
  - Loss of job

Red Flags - Continued

- **Changes in Behavior:**
  - More material items
  - Irritable/moody
  - Upset when questioned/territorial
  - Comes in early/stays late

Common Fraud Schemes

- **Skimming**
  - Any scheme where cash is stolen before it is recorded on the organization’s books

- **Larceny**
  - Any scheme where cash is stolen after it is recorded on the organization’s books
Common Fraud Schemes

- **Billing**
  - Payment is made to a fictitious vendor or for personal purchases

- **Expense reimbursements**
  - Claim is made for fictitious, inappropriate or inflated expenses

Common Fraud Schemes

- **Check tampering**
  - Interception, forgery or alteration of a check drawn on the organization’s bank account

- **Payroll**
  - Fictitious or inflated hours/compensation
  - Excessive overtime
  - ‘Stolen’ time

Common Fraud Schemes

- **Cash disbursements**
  - Fraudulent removal of cash

- **Petty Cash**
  - Misappropriation of cash on hand

- **Non-cash theft**
  - Theft of inventory, equipment or confidential information
Symptoms to watch for

- Unexpected/unexplained reductions in revenue
- Frequent voided transactions in the accounting system
- Missing original documentation
- Out-of-Sequence transactions
- Deposits are mostly or entirely checks & credit cards

So what can you do about it?

Financial Policies & Procedures

- Develop a good Financial Policies & Procedures Manual
- Have it approved by the board
- Follow it!
Fraud Prevention

- Ongoing Training
- Fraud Reporting (whistleblower policy)
- Proactive Measures
- Climate/Tone at the Top
- Put Anti-fraud Controls in Place
- Employment Policies
- Open Door Policy

What if you suspect fraud?

- Investigate
- Interviews
- Document findings
- Contact authorities

Investigate

- Observe activity
- Gather documents
  - QuickBooks audit trail
  - Invoices
  - Cancelled checks
  - Bank statements
Investigate - continued

• Recalculate revenue from information obtained independent of the accounting system and compare it to what is recorded in the financial statements
• Perform analytical tests

Interviews

• Do your homework FIRST
• Stay objective
• Talk to others
  • Have a witness
  • List your questions before starting the interview
  • Use a tape recorder/video if allowed by law

Interviews - continued

• Don’t:
  • Lead the witness
  • Accuse
  • Get angry
  • Negotiate
Documentation
- Assemble proof
- Document interviews in writing
- Provide calculations to support discrepancies

Contact Authorities
- Discuss steps taken
- Show proof of theft or misappropriation of assets
  - Identify the perpetrator
  - Quantify the loss
  - Provide documentation