

How to Survive an Audit

CAROL MISTRETTA AND VERONICA BARRAZA

Role of Sandia National Laboratories' external audit liaison:

- We interface between external auditors and the parties at Sandia being audited.
- We coordinate Sandia's participation in external oversight activity.
- We ensure full and prompt cooperation from members of the workforce with requests for audit information by external agencies.
- We are audited by several different agencies, but only audits performed by the Department of Energy's Office of the Inspector General and the US Government Accountability Office come through our office via NNSA's Audits and Internal Affairs office.

What is an audit?

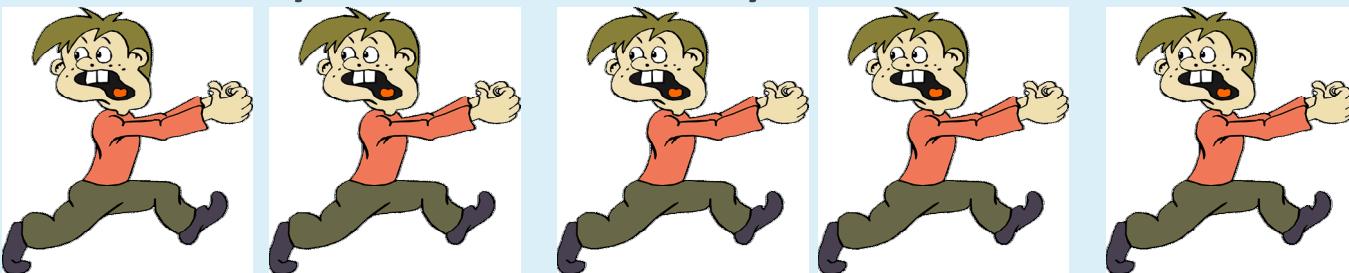
Audit or Assessment – Engagements conducted by independent third-parties and performed in accordance with specific laws or rules to evaluate the effectiveness and efficiency of the company and ensure compliance with legal, regulatory, and contractual requirements.

Types of Engagements:

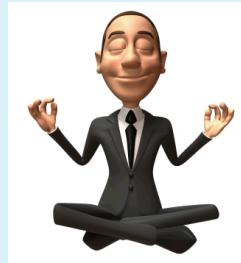
- Audit
- Assessment
- Inspection
- Investigation
- Review
- Survey

You've received notification that your program or project is going to be audited. What do you do?

1. Freak out! Run around the building in a screaming panic or cry uncontrollably for hours!



2. Calmly and confidently meet with your external audit liaison and proceed with planning activities.



Objective

To educate you on:

- The overall process of an audit
- What auditors do
- How to prepare for an audit
- How to interact with auditors
- How to benefit from the audit report

Audit Process:

- Notification of the audit
- Entrance Conference
- Planning Phase
- Testing Phase
- Reporting

Notification of the audit:

Auditors will provide a written official notification of the audit. The letter is usually addressed to management and should include the following:

- Scope
- Contact information for the auditors and their roles

With GAO and OIG audits, the Sandia External Audit Liaison receives the new start notification from NNSA and distributes to executive management for the Laboratories. The POC is identified when the new start notification is received.

- A POC is key to a successful audit. The POC is the primary individual guiding the auditors to the information requested. A central POC helps in providing efficiency and coordination of the audit process. Generally the POC would be a SME, but not necessarily.

Entrance Conference:

- Introduction of auditors
- Presentation of Scope
- Timeframe of the audit
- Timeline
- Discussion of possible site visits and locations
- Expectations of the parties involved – roles and responsibilities

Planning Phase:

Auditors determine their risk and focus areas in a particular program or organization before further testing and continuation of a full audit.

Site visits can occur during this phase.

What does planning entail:

- Reviewing policies and procedures
- Conducting interviews
- Gathering and understanding the processes of the area that is being audited

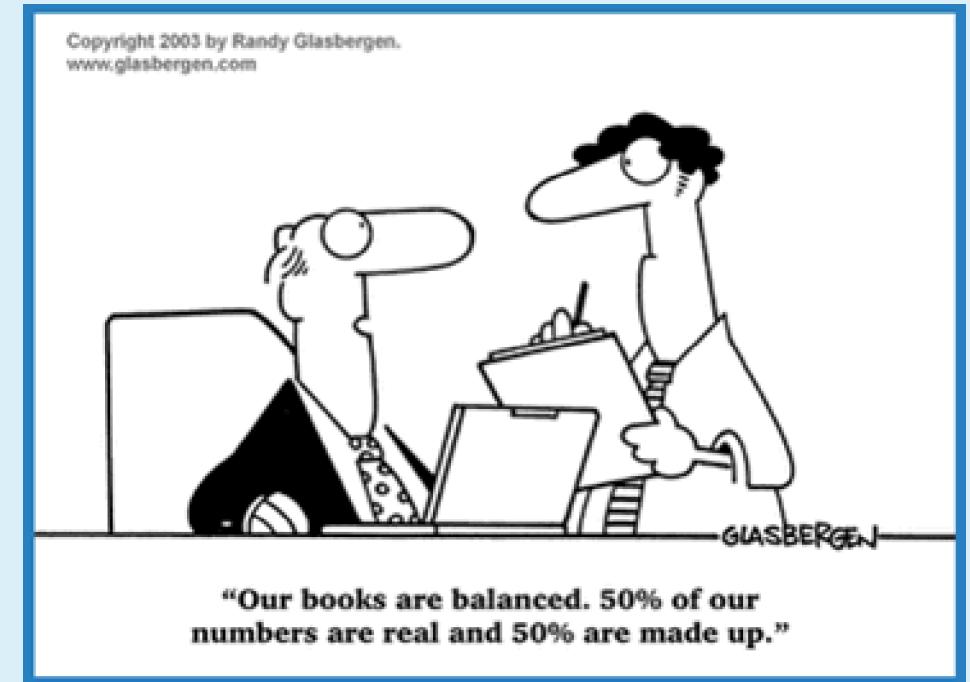
Testing Phase:

The auditors go into greater detail on their review, “verifying” that the initial determinations made during the planning phase are correct or not.

Site visits can occur during this phase.

What does testing entail:

- Sample selection is performed
- Testing conducted
- Volume of documents requested may increase
- Conclusions are developed based on the results of the test work



Reporting Phase:

The reporting phase will typically include a draft report for the client to review for factual accuracy before the final report is issued/published.

Audit report content can vary depending on the agency. An audit report will usually contain:

- Scope
- Brief description of testing performed
- Results
- Recommendations
- Management response

If there are recommendations, the client is given the opportunity to concur or non-concur.

Audits – A Necessary Evil

Good:

- Gives an outsider's view
- Identifies inefficiencies that provides opportunities for improvement
- Identifies the noteworthy practices and accomplishments
- Verifies against policies and procedures

Bad:

- Identifies deficiencies to other
- Audit reports with findings – bad news
- Attracts attention from management and possibly media
- Consumes time and budget

Why you may be audited:

- Required (contractually, legally, etc.)
- Risk Analysis
- Allegations
- Follow-up audit on prior audit results

What auditors do:

- They provide an independent and objective assessment of a company's operations, specifically the effectiveness of its internal control structure.
- Auditors are trained to be objective
- Review data/policies/processes to determine if processes are followed and meet requirements
- Typically audit to a criteria or policy



"We're going to parachute in and do a surprise audit,
but I want to keep the whole thing low key."

What you want to do:

- Don't worry
- Be prepared
- Be responsive
- Provide documents in a timely fashion
- Have a positive attitude



Prepare:

Your level of preparation determines your success. You wouldn't perform a play, musical performance or run a marathon without extensive practice and preparation, and an audit is no different.

Ideally, you want your level of preparation to be even more rigorous than you expect the audit to be. The goal is to minimize or eliminate surprises for both you and the auditor by taking advance action.



What you want to do prior to the audit:

- Review your procedures
 - If procedures are sound but adherence to them has gone by the wayside, now is the time to conduct refresher training for those tasked with performing them.
- Have business processes changed in a way that requires updates?
 - If so now is the time to update them and disclose significant changes.
- Review your most recent self-assessment results
 - Do you have any significant findings that need to be disclosed to the auditor?
- Always disclose significant findings and provide corrective action plans to the auditor in advance.
 - Full disclosure is always the best practice
 - Don't wait for the auditor to discover issues during the review – self disclose
- Are there weak spots in your processes that need to be addressed, even if they are not “significant” issues?
- Identify your strengths and noteworthy practices
- Records are a frequent issue and an obvious area to address
 - Lack of or incomplete documentation

What you want to do at the start of the audit:

- Conduct pre-entrance meeting with staff to relay information about the audit and to determine responsibilities, availability and points of contact during audit.
 - POC should track the data requests and interviews.
- Confirm that records and documentation that are relevant to the audit are ready and available for the auditor.
 - This includes your procedures, organization charts, practices and plans.
 - Allow ample time to gather and organize all of the required documentation as well as time to send documents to Review and Approval based on your organization's policies.
- Provide all data call material on time and in an easily useable format.

How to prepare for a site visit:

- Get the proposed dates for the site visit from the auditors.
- Check with the stakeholders to make sure they are available and that the proposed dates do not conflict with testing, other audits, vacations, etc. that would prevent an effective site visit.
- Work with your External Audit Liaison to help with the logistics.
- Be sure that auditors have the appropriate visit clearances.
- Reserve a space for the auditors to work in and conduct interviews.
- Plan an entrance briefing and possibly a tour the first day the auditors arrive.
- Ask the auditors to provide questions they will be asking as well as a list of individuals they will want to interview prior to the visit.

Setting the stage at the start of the audit:

- Understand your auditor's audit criteria and motivations
 - Agency regulations
 - Particular areas of concern
 - Follow-up audit on corrective actions from previous audits
- Discuss with the auditor's their interpretation of a regulation/guideline because it may be different than yours.
- Have a pre-meeting/conference call to discuss:
 - How they conduct an audit
 - How often will they update the POC
 - What success looks like from the auditor's point of view
- If possible, speak with others who have worked with the auditors in the past to gain insight

Respect the auditors:

They are to be recognized as a contributor. Be respectful and remember they are trained professionals who can provide us with an outsider's view of opportunities to improve.



How to act when interacting with auditors:

- Fully cooperate and give the auditors all the information they request (within your area of expertise)
- Answer all questions honestly and completely without overachieving.
 - Provide the information and support documentation needed to give the auditor what they need – put yourself in their shoes.
- Don't answer questions you don't have the expertise to do so.
 - You may say, "I don't know" or "I don't have the information; however, I will get the information for you ASAP."
 - Tie up the loose ends quickly
- Don't argue with the auditors
 - There will be times when you have a difference of opinion with the auditor. Approach the disagreement with a genuine desire to understand and cooperate. "Seek first to understand, then to be understood." (Covey)
- Don't bad mouth anyone, including sister labs and Government agencies.
- Don't provide lunch to the auditors, unless they pay for it.

Do the auditors always get it right?

- When you disagree with the auditor's conclusion, consider how the recommendations can improve future processes from a corporate perspective.
- Focus on the factual accuracy of the report. Keep your emotions out of it.
- Refer to the "Technical Standards for Reviewing Audit Reports" when reviewing the draft report for factual accuracy.
- Work with the auditors to rewrite the recommendations to still convey the auditors message but to also benefit the company. Compromise!
- Auditor's are typically open to changing the language to change the tone of an audit report.
- A single word can make a difference.

How to manage a difficult situation:

- It's hard when someone "calls your baby ugly."
- Don't argue about requirements; the auditor is not in a position to change them, only to apply them.
- Difficulties or disagreements in interpretation can be discussed with the auditor.
- If you still disagree you need to state the basis for your difference of opinion, along with supporting evidence for your claim.
- If you and the auditor cannot come to a consensus and you see that the auditors are going in the wrong direction you need to get your management involved as well as your audit liaison.

You survived the audit but there were findings – Now What?

- As with any negative event in life, how you respond will be remembered far longer than the original issue
- The “blame game” is unproductive – come together as a team and resolve to move forward
- View the failure as an opportunity to make it better for everyone
- Take time to carefully plan a Corrective Action Plan (CAP)
 - Get the right resources on board to help drive results
 - Perform a root cause analysis
 - Identify possible solutions
 - Identify a specific timeline for implementation
- Execute CAP
- Stay on schedule and keep your management posted with regular progress updates

How to survive an audit:

- Prepare
- Communicate
 - With auditors
 - With POC
 - With management
- Respect the auditors and their results
- Follow-up on the auditors recommendations



Be proactive – make the audit work for you. Attitude and commitment will ensure success. This audit process is only successful when both parties work together to resolve problems.

Questions:

