

Help – I’m Being Audited!



Your Survival Toolkit From the Auditors

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Agenda

- > Types of Audits Tax Offices May Face
- > How To Be Audit-Ready
- > Internal Controls Focus
- > Audit Process Overview
- > Common Audit Mistakes
- > Fraud Tips

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Types of Audits

- > **Internal Audit** – An independent, objective assurance and consulting activity designed to add value and improve an organization's operations.
 - County Auditor's Office – Internal Audit Division
 - Consultants/3rd Party Service Provider
- > **External Audit** – An external audit is an independent, objective review conducted by a third-party auditor. The main purpose of an external audit is to validate the accuracy of a company's financial statements or to ensure compliance with various regulatory standards.
 - Texas Comptroller's Office
 - Texas Department of Motor Vehicles
 - Texas Alcoholic Beverage Commission
 - CPA firms



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Get Ready!

- Conduct periodic risk assessments
- Adopt formal policies and procedures
- Organize and retain documentation
- Review internal controls
- Train staff
- Communicate with the audit team

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Risky Business

- Risk Identification
- Risk Analysis or Assessment
- Controls Assessment and Implementation
- Risk Mitigation
- Risk Monitoring

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Plans of Action

- Need for clear written policies and procedures
- Annual review of policies and procedures is a best practice
- Detailed procedures are beneficial in situations such as:
 - Significant staff turnover or turnover in key positions
 - Implementation of new technologies or significant changes in processes

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To Keep or To Toss

- Records Retention
 - Maintain original documentation as stated in the approved retention schedule
 - Retention Schedule may not be lesser than:
 - Retention period prescribed by state or federal law, regulation, etc.
 - Retention period established by the Texas State Library and Archives Commission.
- Maintain accurate and complete records, such as:
 - Financial transactions
 - Contracts and agreements

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Under Control

- Internal and external auditors and management can evaluate an organization's internal controls
- Evaluate internal controls at least annually to detect deficiencies proactively
 - More frequently during change (staffing, processes, software, etc.)
- Regular assessments validate the success or failure of controls
- Assessment results can lead to adding or modifying controls

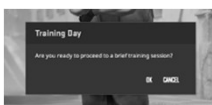
Promoting strong internal controls should be a part of every organization's culture!

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Training Day

Prepare your team by informing them about the audit process, their roles, and how to interact with the auditors.

- This can help alleviate anxiety and ensure cooperation.



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Let's Chat

Maintain open communication with the auditors.

- Clarify expectations, timelines, and any specific requests they may have.



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Stars of the Show (Internal Controls)

- Preventative Controls – Proactive measures designed to prevent fraud, errors, and irregularities before they occur, i.e. controls that *prevent* problems
 - Segregation/Separation of Duties
 - Access Controls
 - Authorizations
- Detective Controls – Measures implemented to identify and uncover irregularities, fraud, or errors after they have occurred, i.e. controls that *detect* problems
 - Independent Reconciliations
 - Fraud, Waste, and Abuse Reporting System
 - Management Reviews
 - Surprise Audits

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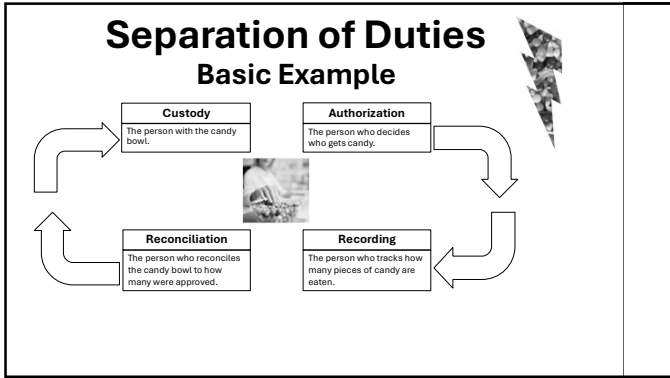
Separation of Duties

Separation of duties, which prevents one person from overseeing all phases of a transaction, is critical to developing strong internal controls and establishing accountability.

- The following organizational functions should be separated, if possible:
 - Recording
 - Authorization
 - Custody
 - Reconciliation

Independent monitoring is a **MUST** in small entities or when adequate separation of duties can not be done.

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Separation of Duties Scenario

In the Tax Assessor-Collector's Office, an accounting clerk is responsible for preparing bank deposit slips and reconciling payments with receipts and the mail log. Additionally, the clerk occasionally fills in at the cashiering window as needed and has access to mailed-in checks. Are there any potential issues with this arrangement?

Yes. There is a lack of separation of duties! The clerk can collect payments before they are recorded in the receipting system and mail log, allowing for manipulation of the deposit slip before it reaches the bank. Since the clerk also performs the reconciliation, this issue could persist for some time until one of the following occurs: a cashier reports to a manager that procedures have been bypassed, independent monitoring is conducted periodically, or a customer inquires about why their payment has cleared while their bill remains unpaid.

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Access Controls

- Physical Access Controls
 - Locks
 - Electronic access cards
 - Biometric systems
- Logical Access Controls (three-step process)
 - Identification (username, employee ID, other personal credentials)
 - Authentication (password, smartphone, biometric scan)
 - Authorization (limit access to only information necessary to perform job duties)

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Authorizations

Authorization and approval are control activities that mitigate the risk of inappropriate transactions.

- Timely (in advance) and documented (in writing) approvals are critical; otherwise, the preventative feature of the control is lost.
- Managers/supervisors are accountable for their approvals
- Areas that need proper authorization to mitigate risk:
 - Voids
 - Refunds
 - Expense Reimbursements

Understand the impact of your signature! Don't sign until you're satisfied with the transaction's supporting documentation.

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Authorizations Scenario

New hire Monica is a cashier at the Tax Office. Out of curiosity and learning the cashiering system, she realized she could "void" transactions without supervisory approval. What is the risk in the absence of compensating controls?

Monica can collect money from customers and potentially pocket it because she can void transactions from the system without a manager's approval.

Compensating controls the office can implement:

- Require cashiers to document and account for all voids in the daily reconciliation and periodically review void activity for reasonableness.
- Require management approval for voids above a specific dollar amount.
- Excessive voids should be monitored.

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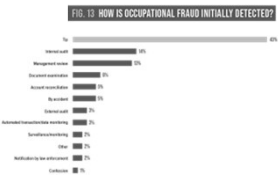
Independent Reconciliations

- Comparison of different sets of records or accounts to verify their accuracy and consistency.
 - Regular reconciliations can promptly identify errors and reduce the potential for fraud.
 - Have reconciliations reviewed and approved by a manager or supervisor without direct involvement with the transactions.
 - Ensure that reconciliations are stored securely and are accessible for future reference or audits/reviews.

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Fraud, Waste, and Abuse Reporting System

- Whenever possible, a publicized reporting system should be established so that employees and outside parties can report waste, abuse, and criminal conduct (fraud) without fear of retribution. Reporting mechanisms include:
 - Hotline
 - Web-based/online form
 - Email
 - Ombudsman
- Per the ACFE, the top three ways fraud is initially detected are:
 - Tips (43%)
 - Internal audit (14%)
 - Management review (13%)



Source: ACFE Occupational Fraud 2024: REPORT TO THE NATIONS

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Management Reviews

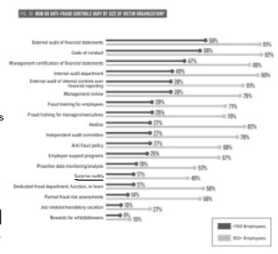
- Supervisory reviews are critical to safeguard assets and ensure controls are effective.
- Management oversees many functions, but a few critical areas that need to be reviewed are:
 - Reconciliations
 - Exception Reports
 - Transaction Monitoring

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Surprise Audits

Generally, surprise audits are performed on high-risk areas, such as cash, inventory, and receivables.

- Benefits of surprise audits:
 - Strong deterrent effect
 - Lower financial losses
 - Reduced duration
- Although surprise audits showed the greatest median loss reduction when control was in place, only 42% of the victim organizations were using this control.
 - Only 17% of organizations with fewer than 100 employees were utilizing this control (compared to 49% of those with 100 or more employees).



Source: ACFE Occupational Fraud 2024: REPORT TO THE NATIONS

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What Does an Audit Look Like?

- Planning Phase
- Fieldwork Phase
- Reporting Phase


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Planning Phase

- Audit Notification
- Research
- Entrance Conference
- Preliminary Interviews
- More Research
- Office-wide Risk Assessment
- Scope
- Audit Objectives
- Audit Plan
- Engagement Letter

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Audit Notification

May 3, 2023

Albert Uresti, MPA, PCAC, CTOP
Tax Assessor-Collector
233 N. Pecos La Trinidad
San Antonio, TX 78207


RE: Audit Announcement - Tax Assessor-Collector's Beer, Wine & Liquor Department


Dear Mr. Uresti:

I am writing to inform you that the Tax Assessor-Collector's Beer, Wine, & Liquor Department was selected for a review as part of Internal Audit's annual audit plan. The overall objective of this engagement is to evaluate the Beer, Wine, & Liquor Department's internal policies, procedures, and controls over permits and fees to determine compliance with relevant laws and regulations.

Our goal is to perform an effective and efficient audit review. Jill Whist and Reid Ortega will be the auditors conducting the engagement. Ty Samblin (Internal Audit Manager) will oversee the engagement. They will be considering of your employees' time and schedule on-site visits accordingly.

Thank you in advance for your cooperation and assistance. Should you need additional information or have any questions/concerns regarding this review, please get in touch with Erin Griffin (Internal Audit Director) at (210) 315-2506 or erin.griffin@bexar.org. Of course, you may also contact me directly.

Respectfully,

Leo S. Caldera
Bexar County Auditor



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Fieldwork Phase

- Gaining an Understanding/Interviews
- Data Requests
- For selected objectives identified in the planning phase:
 - Assess the adequacy of internal controls and compliance
 - Test transactions, records, and resources
 - Perform any other procedures necessary to support the results of each audit objective
- Audit Status Updates
- Wrap Up

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Testing

scope: To test for the risk that permit cards are not maintained at establishments with the State's Record Retention Policy. Liquor Licensing Receipts issued for the payment of liquor licensing fees have a retention period of three years.

period: October 1, 2023 through March 31, 2024

client: [REDACTED] Beer, Liquor, Wine Processor Tax Office, Beer and Liquor Permit County Unit, TABC Active Vendor Roster, TABC Website, Texas Alcoholic Beverage Code (TABC), State's Record Retention Policy

inclusion: Based on the testing, except for some isolated issues, no significant concerns were noted. Auditors did identify \$6,700 in future revenue for the County.

exclusions: We Beer and liquor (BTL) obtain the cards of new establishments from the TABC website every month. The card has information on the establishment's trade name, location address, mailing address, issue date, expiration date, and license type. A file folder is stored for each establishment. The folders are stored in alphabetical order of the trade name and by the establishment expiration date. The folders include copies of the TABC establishment cards, County permit receipts, and correspondence letters. Permit payments issued for licensing fees must be kept for three years. When an establishment has "surrendered" or "expired" its license through TABC, the files are boxed and stored at Beer County Address.

We auditor used the Public Inquiry System on the TABC Website to create a roster (population list) of active TABC licenses in Beer County. The report generated 4,858 beverage vendors with an active TABC card type. The auditor assessed risk at a medium level. Using a 95% Confidence Level and a 7% Tolerable Risk, we determined our sample size as 41. If 0 of these are non-compliant, testing will stop at 41.

Issue	Attribute	Test	Result
1	Attribute not	Attribute not, the establishment holds a permit that is not billed by the County until the 3rd year from original issue date of the permit	Attribute not, the County permit was voided prior to the check date returned for non-sufficient funds
2	Attribute not	Attribute not, the County permit was voided prior to the check date returned for non-sufficient funds	Attribute not
3	Not applicable	Not applicable	Not applicable

Issue File	Invoice Type	Invoice Date	Invoice Status	Trade Name	Company	Original Issue	Address	Count	Agency	Testing	Notes	
20230801001	BEER	8/1/2023	Active	ALABAMA CITY WINE MERCHANTS LLC	ALABAMA CITY WINE MERCHANTS LLC	5/18/2023	1000 N SAN PEDRO AVE STE 201	Beer	0	11/1/2024	Yes	
20230801002	BEER	8/1/2023	Active	Beer City Long Church	Beer City Long Church	5/18/2023	762 Constitution Ave	Beer	0	11/1/2024	Yes	Temporary Entity Temporary Permit (TAP). Receipt from local government form (check held under the permit may set up to 30 construction days and have a \$50 fee per day for TABC.
20230801003	BEER	8/1/2023	Active	DOLLAR GENERAL STORE #3078	DOLLAR GENERAL STORE #3078	6/26/2023	2400 HWY 281 SOUTH	Beer	0	11/1/2024	Yes	
20230801004	BEER	8/1/2023	Active	HENRY'S LOUVE	HENRY'S LOUVE	11/1/2023	2207 N HWY 281 ROAD	Beer	0	11/1/2024	Yes	
20230801005	BEER	8/1/2023	Active	LEFANE BROTHERS	LEFANE BROTHERS	11/1/2023	2704 Austin Hwy	Beer	0	11/1/2024	Yes	

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Reporting Phase

- Draft Report
- Exit Conference
 - Communicate the audit results
- Management Responses
- Final Audit Report
 - Executive Report
 - Management Letter

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Fraud for Thought

Fraud is a deliberate act of deception or trickery to gain an advantage over someone else, usually to obtain money or property. It can also include concealing a material fact or violating someone's trust.



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Why Do People Commit Fraud?

According to Dr. Donald Cressey (criminologist), a person is highly likely to pursue fraudulent activities when three factors align. This is known as the Fraud Triangle.

- Pressure
- Opportunity
- Rationalization



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Categories of Fraud

Against Individuals

- Identify Theft
- Phishing scams
- "Advance-fee" schemes

Internal Organizational Fraud

- Corruption
- Asset Misappropriation
- Financial Statement Fraud

External Organizational Fraud

- Vendor Fraud
- Customer Fraud
- Competitor Fraud

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Fraud IRL

You've Got Mail
Residents receiving letters claiming they owe a substantial tax bill.

What A Steal
County employees accepted bribes from vehicle title companies in exchange for processing fraudulent automobile title transactions.

Buyer Beware
Auto buyers have been tricked into purchasing vehicles with fraudulent titles or stolen vehicles.

Skimming Scam
A Tax Assessor-Collector skimmed hundreds of thousands of dollars from taxpayer funds, while deputy clerks allegedly backdated tax payments to give the appearance that taxpayers had made early payments.

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Key Anti-fraud Controls

➤ Per the Association of Certified Fraud Examiners (ACFE) 2024 Occupational Fraud Report, four controls were associated with at least a 50% reduction in both fraud loss and duration:

- Surprise audits
- Financial statement audits
- Hotlines
- Proactive data analytics

➤ More THAN HALF of the fraud cases studied occurred due to:

- Lack of internal controls (32%)
- Override of existing controls (19%)

Lack of employee fraud education 3%

Lack of clear lines of authority 1%

Lack of reporting mechanism 1%

Source: ACFE Occupational Fraud 2024: A Report to the Nations

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Catch Fraud, Not Feelings

It is Bexar County policy that all suspected or detected theft/fraud is investigated. If a theft is suspected or discovered, employees must contact the County Auditor, the Sheriff's Office Criminal Investigation Division, and the District Attorney.

IF YOU SEE SOMETHING, SAY SOMETHING!

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Inquiries

Feel free to contact us with any questions!



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AUDIENCE

спасибо 谢谢
GRACIAS 谢谢
THANK YOU
ありがとうございました MERCI
DANKU धन्यवाद
شكراً OBRIGADO

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