

**Date**

October 18, 2023

Time

10:30 AM – 12:00 PM

Instructor

Barry Kelly, MBA, CIA
Special Projects Senior

Location

Live-Streamed and
Onsite at Louisiana
Immersive
Technologies Enterprise
(LITE) at the University
of Louisiana at
Lafayette (ULL)

Method of Delivery

Classroom instruction
and Live-streamed

Learning Level

Intermediate

CPE Hours

1.5 Hours

CPA Subject Matter

Accounting and
Auditing

Prerequisite

None

Using SAUPs to Strengthen Internal Controls

Description

Internal controls are essential for any organization to achieve its objectives and safeguard its assets. In this session participants will learn how Statewide Agreed-Upon Procedures (SAUPs) can help you assess and improve your entity's internal controls and financial management.

Objectives

To gain knowledge on how to use exceptions to the statewide agreed-upon procedures as an opportunity to strengthen internal controls including:

- Identifying areas where improvement is needed;
- Encouraging thoughtful analysis of internal control processes;
- Promoting accountability; and
- Hearing ideas for taking the internal controls above and beyond what is tested in the SAUPs.

Who Will Benefit

- Elected Officials/Appointed Officials
- Local Government Employees/Local Government Auditors

About the Instructor

Barry Kelly began working at the Louisiana Legislative Auditor's (LLA) office in 2012. Currently he works on the special projects team in the Local Government Services section of LLA. He helps prepare Statewide Agreed-Upon Procedures (SAUP) updates, creates and monitors the implementation of statutorily required schedules, fulfills legislative requests, and provides assistance to local officials and CPAs.

Barry is a Certified Internal Auditor and a member of the Institute of Internal Auditor's (IIA). He graduated from the University of New Orleans with a Bachelor of Science in Accounting and a Master in Business Administration. Prior to working at the LLA he worked as a sales tax auditor for the state of Louisiana.

Using SAUPs to Strengthen Internal Controls



CENTER FOR LOCAL GOVERNMENT EXCELLENCE

Presented by:
Barry O. Kelly, MBA, CIA
Special Projects Senior

Your Trusted Advisor

We want to explore your needs, challenges, and strengths to find ways to make you more prepared, resilient and productive. We are a trusted resource that can positively impact the success of your organization – and ultimately the success of the state.



Introduction to SAUPs

- Statewide Agreed-Upon Procedures (SAUPs) are designed to address the areas of internal control that are most critical to **preventing fraud, waste, and abuse of public funds**.
- SAUPs are **updated periodically** to reflect changes in laws and regulations, as well as changes in the risks faced by local governments.



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Background

- SAUPs have been required for all local government and quasi-public agency (local auditee) audit reports **since the fiscal year ending June 30, 2017**.
- The SAUPs were **last updated in November 2022** and are effective for **fiscal years ending 12/31/2022 through 11/30/2023**.
- Effective for local governments and quasi-public organizations (required to comply with the Audit Law, R.S. 24:513-514) with **total revenues of at least \$500,000** (submit an audit, not a review/attestation or compilation).
- Performed under AICPA attest standards by the **same firm that performs the annual audit** (and attached to, but a separate report from, the annual audit report).

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General Comments

- The procedures and instructions are posted on our **website** at: <https://lla.la.gov/resources/local-government-reporting/statewide-procedures>.
- Management must provide a **written response**.
- Only those SAUP exceptions that rise to the level of **significant deficiency or material weakness** should be included as an audit finding.
- Every procedure is tested **every year**.

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What's New?

A red ribbon-style badge with the word 'NEW' in white capital letters, indicating that the information on this slide is new or updated.

- In **November 2022** we significantly improved the instructions and procedures by adding a **linked table of contents and sub-sections** in the instructions.
- Starting on **March 1, 2023**, auditors began recording in LLA's database **whether or not an exception was found** for each of the 14 procedures. This will allow LLA to collect data and track how each entity resolves exceptions over time.
- Will change to fiscal years **beginning on or after January 1, 2023** to provide flexibility on lead time when significant changes are made and to encourage more multi-year engagements.

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What's New?



We will be adding a procedure in **#13, IT Disaster Recovery/Business Continuity**, to observe if employees have received the cybersecurity training required by [R.S. 42:1267](#)

- Act 155 of the 2020 Regular Legislative Session, **effective June 9, 2020**
- Focuses on **forming security habits and procedures** that protect information resources and teach best practices for detecting, assessing, reporting, and addressing information security threats
- Requires **all employees and elected officials** who have access to an agency's IT assets to complete the cybersecurity training within 30 days of being hired
- Requires **all contractors who have access to an agency's IT assets** to complete cybersecurity training during the term of the contract, and this requirement should be included in the terms of the contract
- Requires the [Department of Civil Service](#) to develop the training and make it **available online** at minimal cost
- 7 • Requires the agency head to **certify completion** to Civil Service

Change to Open Meetings Law: Act 393 of 2023

Public Participation

- Public bodies that have the capability are required to **adopt rules to accommodate public participation for members of the public who have a disability recognized by the Americans with Disabilities Act (ADA)**, or their caretakers, to participate electronically, in meetings upon request.
- Those public bodies that do not have the capability must adopt rules to **provide viable alternatives** to accommodate such members of the public to participate in the meetings.



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Change to Open Meetings Law: Act 393 of 2023

Member Participation

- Public bodies are required to **adopt rules to provide for members of the body who have a disability recognized by the Americans with Disabilities Act (ADA)** to be able to participate electronically in meetings.
- Such members participating electronically will count towards a **quorum and will be able to vote.**



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Statewide Agreed-Upon Procedures

- | | |
|---|---|
| 1. Written Policies and Procedures | 8. Contracts |
| 2. Board or Finance Committee | 9. Payroll and Personnel |
| 3. Bank Reconciliations | 10. Ethics |
| 4. Collections | 11. Debt Service |
| 5. Non-payroll Disbursements | 12. Fraud Notice |
| 6. Travel and Travel-related Expense Reimbursements | 13. IT Disaster Recovery/ Business Continuity |
| 7. Credit, Debit, Fuel, and Purchase Cards | 14. Prevention of Sexual Harassment |

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Why Are SAUPs Necessary?

- A **clean or unmodified auditor's opinion** does not mean that the auditor is certifying that the financial statements are free of errors or that no fraud occurred because the auditor does not test every transaction; instead the auditor tests a representative sample of transactions.
- SAUPs require the auditor to take a **more careful look** at areas that might not end up in the representative sample tested in an audit engagement.

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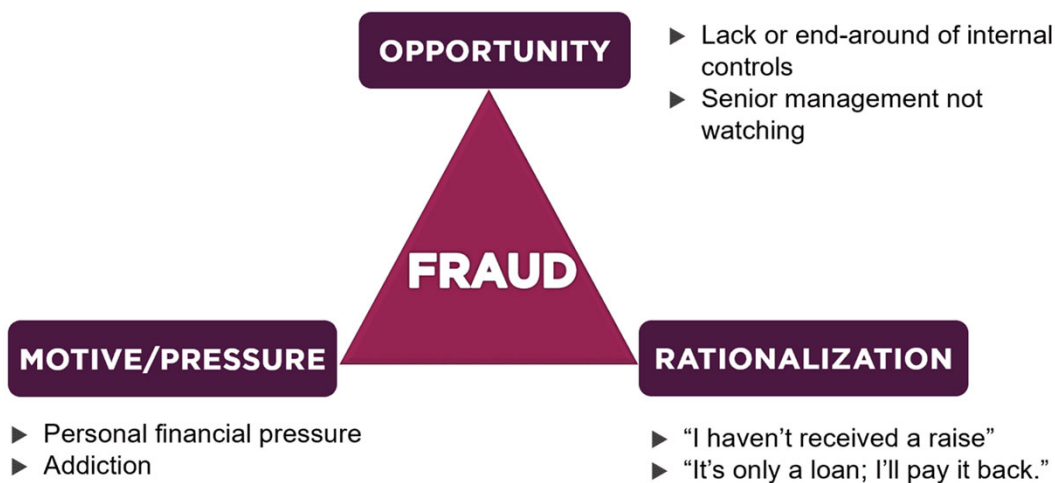
Little Problems Can Turn Into Big Problems

- Statewide agreed-upon procedure exceptions
- Management Letter comments
- Audit findings

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Fraud Triangle



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Internal Control Defined

Internal control is nothing more (or less) than **the combination of people, policies, and procedures** that managers rely upon to be able to **know** that:

- The government is **operating effectively and efficiently** and is safeguarding its assets,
- The financial statements and other reports **can be relied upon**, and
- The government is **complying** with applicable laws, regulations and policies.

Stephen J. Gauthier, former Director of Technical Services, Government Finance Officers Association (GFOA)

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Strengthening Internal Controls

SAUPs can help strengthen internal controls by:

- Identifying areas where **improvement** is needed
- Encouraging thoughtful **analysis** of internal control processes
- Promoting **accountability**



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Identifying Areas Needing Improvement

- SAUPs test the **existence and implementation** of certain internal controls by evaluating whether policies and procedures are in place and being followed effectively.
- Identifying areas where controls are **absent or where policies and procedures are not being followed** can help local auditees strengthen their overall internal control environment.



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Review the SAUP Results

- In the areas tested, the SAUP report will include **exceptions** when internal controls, as outlined, in policies and procedures are absent or not followed.
- Exceptions can help identify and address **control deficiencies** that may have otherwise gone unnoticed.
- **Take each exception seriously** and develop a comprehensive corrective action plan to **resolve** each exception and **prevent** them in the future.



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Improving Internal Controls by Resolving SAUP Exceptions

- **Exceptions may indicate** that a control is missing, is not being implemented effectively, or is not being monitored effectively.
- **Resolving exceptions** may involve implementing new controls, strengthening existing controls, or improving the monitoring of controls.

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Turning Exceptions into Opportunities

Exceptions found during SAUP testing provide organizations an opportunity to take steps to **address weaknesses** in their internal controls to:



- **Reduce** the risk of fraud, waste, and abuse of public funds
- **Improve** the efficiency and effectiveness of their operations
- **Comply** with applicable laws and regulations
- **Demonstrate** good stewardship of public funds

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Respond to Exceptions with Thoughtful Analysis

- **Thoughtful analysis** involves considering all of the relevant factors when responding to exceptions.
- When responding to exceptions, the entity should:
 - Gather all **relevant information**: This may include reviewing the SAUP report, interviewing employees, and examining supporting documentation.
 - **Analyze** the information to determine the root cause of the exception.
 - **Identify and assess** the risks associated with the exception.
 - **Develop and implement a corrective action plan** to address the root cause of the exception and mitigate the risks.
 - **Monitor** the implementation of the corrective action plan to ensure its effectiveness.



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Identify the Exceptions

- Carefully **review** the SAUP report for any and all exceptions.
- Identify the **specific procedures** that were performed and the results of those procedures.
- **Discuss** the results with your auditor.
- Identify the **specific areas** of the entity's financial reporting or internal controls that are affected by the exceptions.

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Assess the Exceptions

Assess the severity of each exception. Consider the following factors:

- The potential impact of the exception on the **accuracy and completeness of the financial statements**.
- The potential that the exception may indicate a weakness in internal controls that could create an **opportunity for fraud**.
- The potential that the exception indicates **non-compliance with legal requirements**.
- The likelihood that the exception is indicative of a **broader problem**.
- The likelihood that the exception will **repeat**.

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Determine the Root Cause

Common **root causes** of exceptions include:

- **Human error:** Mistakes made by employees, such as entering incorrect data or forgetting steps in a process.
- **System errors:** Problems with software or hardware that prevent the system from operating as expected.
- **Process gaps:** Weaknesses in the way that a process is designed or implemented.
- **Communication breakdowns:** Lack of communication between different parts of an organization, leading to confusion and errors.
- **Training deficiencies:** Employees are not adequately trained to perform their jobs correctly.



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Analyze and Identify Trends

- **Identifying trends** can help focus improvement efforts on the areas where they are most needed.

For example:

- Are exceptions **repeated** year-to-year?
- Are exceptions **concentrated** in certain departments or functions?
- Is the **number of exceptions** increasing or decreasing over time?

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Legal and Regulatory Compliance

- If exceptions are due to **non-compliance with legal requirements** the applicable laws should be researched.
- Local auditees should have a system in place to **identify and track new and revised laws**.
- The **LLA website** contains a number of useful legal resources including Legal FAQs and previously asked legal questions.

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Developing Corrective Action Plans

- For each exception, a **corrective action plan** should be developed that includes:
 - A **description** of the corrective action that will be taken.
 - A **timeline** for implementation.
 - The **person responsible** for implementing the plan.
- The corrective action plan should be **reviewed and approved by the board** before implementation.

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Consider Best Practices

When developing your corrective action plan, review and consider the best practices available. Two websites you can review are:

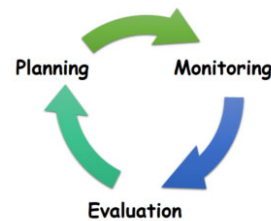
- **Louisiana Legislative Auditor** (lla.la.gov): Provides a number of resources for local governments, including best practices, templates, and legal FAQs.
- **Government Finance Officers Association** (www.gfoa.org): Offers a variety of resources on best practices, including publications, webinars, and training programs.

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Monitor the Implementation of the Corrective Action Plan

- Identify the **key indicators** to monitor for each corrective action.
- Develop a **monitoring schedule** for each corrective action.
- **Assign responsibility** for monitoring each corrective action.
- **Track progress** on the corrective actions and report on the results to the board on at least a monthly basis.



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Evaluate the Plan's Effectiveness

- Develop a set of **criteria** for evaluating the effectiveness of the corrective action plan.
- **Collect data** on the performance of the corrective action plan against the criteria.
- **Compare the data** to the goals of the corrective action plan.
- **Identify** any areas where the corrective action plan is not effective.
- Make necessary **adjustments** to the corrective action plan.



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Promoting Accountability

- **Accountability** is essential for ensuring that public entities use taxpayer money wisely and efficiently.
- SAUPs promote accountability by making reports **publicly available**, which encourages accountability through increased transparency.



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Increased Transparency

- **Transparency** is essential for building public trust and confidence in government.
- SAUP reports provide transparency by:
 - **Identifying weaknesses** in internal controls.
 - Identifying whether entities are complying with or violating certain **applicable laws and regulations**.
 - Being **available to the public** which enables them to be reviewed by taxpayers, elected officials, media outlets, and other stakeholders.
 - Allowing the public to see which entities are **committed** to addressing exceptions and which entities are not.



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Going Above and Beyond

- Perform regular **self-assessments** of internal controls beyond what is tested in the SAUPs.
- **Implement additional internal controls** that are not specifically tested in the SAUPs. This could include controls such as:
 - More frequent reconciliations of financial accounts.
 - More rigorous review and approval processes for transactions.
 - More robust segregation of duties.
 - Increased use of technology to automate and streamline processes.



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Going Above and Beyond

- Provide **training** to staff on internal controls and how to identify and report potential problems.
- Create a **culture of accountability and transparency**. This will help to encourage staff to be proactive in identifying and reporting potential problems.



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Thank You!



Barry O. Kelly, MBA, CIA
 Special Projects Senior
 Local Government Services
 bkelly@lla.la.gov
 Office: (225) 339-3831

