

Commonwealth of Pennsylvania

General Information to be Considered in Preparation for the Fiscal Year Ended 6-30-16 Audit Period - Executive Management Interviews

This document is intended to provide general information and guidelines to Commonwealth personnel in preparation for the Executive Management interviews conducted by the Auditor General and CliftonLarsonAllen auditors (auditors) as a step in completing audit work for the June 30, 2016 Comprehensive Annual Financial Report (CAFR) and Statewide Single Audits. The auditors announced their intention to conduct these interviews in letters to Commonwealth agency heads issued on July 21, 2016. This document is for internal use and has not been reviewed by the auditors.

Purpose of Interviews

- Based on application of required auditing standards, the auditors are conducting these interviews to establish an impression of management's awareness and understanding of material errors, fraud and fraud risks.
- The auditors will also be interested in identifying any steps taken to mitigate material error and fraud risks, as well as identifying any current material errors and/or frauds that management is aware of.
- A commonly used reference to this goal is the auditor's assessment of the "tone at the top".

Interviews with Executive Management

- The auditors issued their July 21, 2016 letter to agency heads selected to be interviewed. In order to meet their objectives, the auditors begin their interview process with the agency heads.
- Agency heads are free to invite other executive management within their organizations to participate in the interviews. It is not uncommon for agency heads to include one or more deputy secretaries and their legal counsel in the meetings. It is advisable to keep the meeting limited to these personnel.
- The auditors may conduct additional interviews/inquires of other staff within your agency throughout their fieldwork. Their audit standard encourages them to make inquiries at numerous staff levels in order to corroborate information obtained and provide them with a reasonable basis for assessing risks of material misstatements due to fraud.

Broad Questions Management Should be Prepared to Answer

The July 21, 2016 letter contains an attachment with examples of inquiries that auditors may make during the interviews of Commonwealth management relative to the CAFR and Single Audit. The auditors will not necessarily make all of these inquiries during all interviews and will modify the inquiries based on the staff position being interviewed.

At the broadest level, all Commonwealth personnel should be prepared to address the following questions during the Executive Management interviews:

1. Do you recognize the possibility of fraud occurring within your organization?
2. Do you have mechanisms/processes in place to allow employees/business partners to report fraud as well as have an awareness of the potential for fraud in the workplace?
3. Are you aware of any significant fraud in your agency?

Generically, you may also hear this question:

4. What keeps you up at night relative to managing your organization?

Common Processes or Activities Agencies Utilize to Mitigate Risk of Fraud and Inform Employees

In demonstrating your recognition of the possibility of fraud occurring within your organization and addressing mechanisms/processes in place that directly or indirectly address fraud, you can reference several of the bulleted items below as applicable to your agency. These items are mechanisms to mitigate risk and inform employees that are applicable to most agencies.

- Employee Code of Conduct and Statement of Financial Interests (Reference Management Directives (MD) 205.9 & 205.10).
- Policy on prohibiting activities not connected with official Commonwealth business (Reference MD 205.14).
- Policy on compliance with the Whistleblower Law (Reference MD 205.16).
- Policy on Information Technology acceptable use (Reference MD 205.34 & 245.18).
- Policy on employee enterprise role assignments and related security (Reference MD 205.37).
- Policy on electronic commerce initiative and security (Reference MD 210.12).
- Policy on Commonwealth contractor integrity and responsibility provisions (Reference MD 215.8 & 215.9).
- Policy on use of mobile or wireless devices (Reference MD 240.11 & 240.12)
- Policy on procurement of goods & services (Reference Manual M215.3)
- Policy on financial management (Reference MD's 305-325)
- Agency implemented hotlines or secured drop boxes promoted for employee use in reporting fraud and abuse.

Common Processes or Activities Agencies Utilize to Mitigate Risk of Fraud and Inform Employees – cont'd

- Agency implemented ethics and antifraud education programs.
- Agency internal oversight, monitoring and reconciliation activities. Examples of these activities include: purchasing card security and monthly reconciliations; the revenue receipt, deposit and accounting function; and the agency grant approval process.

Contact for Assistance

If you have any questions, or would like additional information feel free to contact Michael Burns at Office of the Budget, Comptroller Operations via e-mail at mburns@pa.gov or telephone at 717-265-7287.