

October 2002

AUDIT GUIDELINES FOR STATE AGENCIES - 12 QUESTIONS

The Legislative Audit and Fiscal Review Committee has required auditors of state agencies to address 12 questions in agency audit reports and to explain answers that are not positive. This memorandum provides an overview of the 12 questions, a history of the 12 questions, and related observations.

OVERVIEW OF THE 12 QUESTIONS

The 12 questions are a list of statements to be addressed by auditors of state agencies as part of the postaudit program. The scope of audit examinations require certain audit procedures from which the auditor can address these statements. Auditors are directed to answer and quantify exceptions to the questions and provide a summary of any recommendation to correct the deficiency. The 12 questions are:

1. Were expenditures made in accordance with legislative appropriations and other state fiscal requirements and restrictions?
2. Were revenues accounted for properly?
3. Were there adequate financial controls and procedures?
4. Was the system of internal control adequate and functioning effectively?
5. Do financial records and reports reconcile with state fiscal offices?
6. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?
7. Was there any indication of fraud or dishonesty?
8. Were there any indications of lack of efficiency in financial operations and management of the agency?
9. Has action been taken on findings and recommendations included in prior audit reports?
10. Were all activities of the agency encompassed within appropriations of specific amounts?
11. Has the agency or institution implemented the Statewide Accounting and Management Information System (SAMIS), including the cost allocation system?
12. Has the agency developed budgets of actual anticipated expenditures and revenues on at least a quarterly basis and compared, on at least a quarterly basis, actual expenditures and revenues on the accrual basis to budgeted expenditures and revenues?

HISTORY OF THE 12 QUESTIONS

- **September 1966** - The legislative budget analyst and auditor, through research, consultation with independent certified public

accountants, the Auditor General of Illinois, and the Governmental Accounting and Auditing Committee of the North Dakota Society of Certified Public Accountants developed *Suggested Guidelines to Independent Certified Public Accountants Performing Audits of State Agencies*. The guidelines were developed for the use of independent certified public accountants; however, the State Auditor's office agreed to prepare reports in accordance with the guidelines whenever possible. The suggested guidelines, as approved by the Legislative Audit and Fiscal Review Committee, included the first 10 questions.

- **November 1990** - The Legislative Audit and Fiscal Review Committee received testimony from a representative of the Office of Management and Budget (OMB) regarding the implementation of SAMIS. The representative of OMB said agencies have not implemented the cost allocation system portion of SAMIS because they are not aware of the importance of the system or they do not have the staff capabilities or staff resources to implement the system. To encourage agency participation in the cost allocation system, the Legislative Audit and Fiscal Review Committee approved question **No. 11**--Has the agency or institution implemented the Statewide Accounting and Management Information System (SAMIS), including the cost allocation system?
- **June 1992** - The Legislative Audit and Fiscal Review Committee requested the Legislative Council staff to survey state agencies regarding the process of developing budgets of actual and anticipated expenditures and revenues on at least a quarterly basis and to compare, on at least a quarterly basis, actual and budgeted expenditures and revenues on an accrual basis. The survey responses indicated that of the 76 questionnaires returned by state agencies, 73 agencies indicated they do prepare periodic reports on the status of its budget. Of the 73 agencies that prepare periodic reports, 58 were on a monthly basis, eight on a quarterly basis, four on a semiannual basis, and two on an annual basis. Of the 73 agencies that prepare reports, 45 prepare them on a cash basis and 28 on an accrual basis. To encourage agency quarterly budgets and spending monitoring, the Legislative Audit and Fiscal Review Committee approved question **No. 12**--Has the agency developed budgets of actual anticipated expenditures and revenues on at least a quarterly basis and compared, on

at least a quarterly basis, actual expenditures and revenues on the accrual basis to budgeted expenditures and revenues?

SUGGESTED GUIDELINES FOR STATE AGENCY AUDITS

The 12 points are included within the State Auditor's office *Suggested Guidelines to Independent Certified Public Accountants Performing Audits of State Agencies*. The purpose of the suggested guidelines is to aid auditors in the development of audit programs and reports, so the completed report will be of maximum value to the appropriate authority and the taxpayers of North Dakota. The guidelines have been updated and revised by the State Auditor's office in 1988 and 1999. The revisions primarily reflect changes made in *Government Auditing Standards* and do not alter the intent of previously approved guidelines. The major sections and order within the report as set forth in the suggested guidelines include the following:

- Table of contents.
- The auditor's report on the financial statements and supplementary data.
- Financial statements and notes to the financial statements.
- The 12 questions.
- Report on compliance and on internal control.
- Audit findings, recommendations, and agency responses.
- Supplementary data.

OBSERVATIONS

North Dakota Century Code Section 54-35-02.1 provides that the Legislative Audit and Fiscal Review Committee is:

- To study and review the financial transactions of the state.
- To assure the collection of revenues and the expenditure of money are in compliance with law, legislative intent, and sound financial practices.
- To provide the Legislative Assembly with formal, objective information on revenue collections and expenditures.

The 12 questions were developed in part to assist the committee in addressing those statutory responsibilities and it appears the 12 questions have been effective in encouraging agencies to improve fiscal practices. Auditors generally review their answers to the 12 questions in the presentation of the agency audit report, often focusing on the related answers. As the questions are generally answered in a positive manner, it appears agencies take the issues seriously and attempt to comply, unless limited in staff or other resources. Questions that are not answered in a positive manner may alert the Legislative Audit and Fiscal Review Committee to areas that may potentially need committee followup action or identify areas when a performance audit may be appropriate. Elimination of the 12 questions may send the message to state agencies that these areas are no longer of importance to the Legislative Audit and Fiscal Review Committee.

Because the questions were developed several years ago, a review of the questions by the Legislative Audit and Fiscal Review Committee, with input from the State Auditor's office, and a subsequent update may be appropriate during the next interim. The new enterprise resource planning (ERP) accounting system and information technology changes are just two areas that could be addressed in the update of the questions.