

President's Message



Hello, all:

I have returned from my wanderings after a great time in Europe. We took a cruise primarily around the Greek islands, finishing up in Venice. We stayed a few days in Venice and then a few more in Milan. It's a tough life for the retired!!

As you are aware, we realized that the monthly meetings are no longer a feasible practice for our Chapter. Too many folks work at home and the time required to commute to the City for a one-hour luncheon meeting is just not practical. This month, we are trying our first four-hour meeting/training session. We hope that will draw people to our meetings.

We just received notice that the SF Chapter will receive the Bronze Chapter Recognition Award at the PDT in July. Linda Gee our Immediate Past President has agreed to accept the award for the Chapter when she is at the PDT. I won't be there, as I will be traveling again (will this gay, mad whirl never cease?).

This will probably be my last President's letter, as I am retiring from the position of President this summer. We will let you know who the new President is as soon as one is selected, or volunteers. I would like to express my gratitude to all who have contributed their time these past years to the Chapter. It has been wonderful to see the development of a full Board of Directors.

Have a great summer!

-Sefton

June 2019 Issue

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RPA and the Government Audit

By **Isa I. Farhat, CPA**

As government programs evolve, and agency missions grow increasingly complex, governments are increasingly reliant upon technology to support strategic, operational, compliance and reporting objectives. Faced with unprecedented disruption of the “old ways” of achieving these objectives, agencies have increased use of robotic process automation (RPA) — computer-coded, rules-based machines to automate repetitive, rules-based human tasks. In the simplest terms, RPA uses robots, or “bots,” to record human actions, then follow prescribed protocols and procedures with precision for increased compliance and cost efficiencies.

However, as agencies embrace RPA, specific audit implications need to be considered by government entities and addressed by auditors to enable successful transformation. Since the audit may directly affect critical funding required to execute complex missions to serve constituencies, agency leadership must gain an understanding of the many aspects of RPA that can elevate risk exposure, such as changes inherent post-automation, job role changes and related internal controls, access security and application change management, and governance of the RPA-enabled environment. Therefore, RPA must be meticulously scrutinized by auditors, as current auditing standards related to RPA are not yet established.

How Is Government Using RPA?

In its January 2018 blog post, “We’re Thinking about Robots,”¹ the U.S. Department of the Treasury’s Bureau of Fiscal Service (Fiscal Service) noted that the Office of Financial Innovation and Transformation (FIT) was tasked with piloting a project² to explore ways RPA could improve financial processes in the bureau. The pilot³ discovered an average 60 percent improvement in the amount of time it took to finish all tasks in the seven processes that were automated. In addition, throughput increased by 30 times, and processing capacity was created without adding human resources. Because RPA performs tasks exactly as defined (assuming bots are properly configured), accuracy in carrying out automated tasks reached 100 percent.

Accounting is the most common area of RPA deployment in government, and this functional area of government is well-suited for many types of automation. For example, traditional RPA that automates transactional processes in accounting or enhanced finance and controls automation, often referred to as “last mile of finance” automation, work well for a variety of reasons, including:

- Need for a high degree of accuracy and consistency;
- Repetitive, manual nature of transaction processing;
- Information gathered from fragmented systems;
- Dependency on data entry, data manipulation and report generation.

The Changing Regulatory Landscape

With the increasing use of emerging technologies such as RPA, many regulatory bodies and standards setters have begun to assess them and form “regulator’s perspectives.” In prepared remarks⁴ given at the 43rd World Continuous Auditing and Reporting Symposium on November 2, 2018, Kathleen M. Hamm, a member of the Public Company Accounting Oversight Board (PCAOB), said innovative uses of technology offer the potential to fundamentally change not only the financial reporting process but also the audit. She also said technology offers the promise of improving audit quality plus the opportunity to

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proactively develop accounting and auditing standards and regulatory requirements into solutions. Already, the newly revised Office of Management and Budget (OMB) Circular No. A-123, *Appendix A — Management of Reporting and Data Integrity Risk*,⁵ emphasizes data as an asset and requires more rigor related to compliance with the Digital Accountability and Transparency Act (DATA Act).

Moreover, at the American Institute of Certified Public Accountants (AICPA) conference on current developments at the Securities and Exchange Commission (SEC) and PCAOB, SEC officials stressed the importance of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework⁶ Principle 9 to maintain effective internal controls over financial reporting, particularly in a period of change like RPA implementation. Therefore, government financial managers should prepare for auditors to focus on the following areas in their financial statement audits:

- Understanding the changes resulting from processes that have been automated and re-evaluating risks through risk assessment;
- Technology reliability within business processes, including automated controls;
- Information system controls, including those for access and bot credentialing, change related to maintaining bots, business continuity planning, and other general controls;
- Accuracy, security and completeness of stored data, including data leakage and privacy;
- Cybersecurity and procedures for cyber-incident response;
- Segregation of duties between bot IDs and end users;
- RPA governance, including monitoring of bot throughput, processing errors and exception handling through human intervention (i.e., partial automation);
- Completeness and accuracy of transactions processed through RPA, considering configuration, parameters of reports, and processing logic.

The Auditors' Risk Assessment

Auditors must seek to understand automated transactions in the entity's operations that are significant to financial statements as well as conducted in walk-throughs of the automated processes and by understanding the related parameters, logic and source data that the automation encompasses.

It is important for auditors to understand those transactions that give rise or contribute to risks of material misstatement in financial statements. This includes a consideration of whether automation of transaction processing would result in modification of the nature, timing and extent of auditors' procedures. The information obtained from risk assessment would form the basis for the design of further audit procedures to respond directly to each risk.

Adaptation to Addressing RPA in an Audit

Despite the evolution of RPA in accounting and finance, regulators remind auditors that the fundamental financial reporting framework does not change. If a significant amount of an entity's financial information is electronically initiated, recorded, processed or reported, substantive audit procedures alone might not provide sufficient evidence for auditors for a relevant financial statement assertion. In other words, when RPA is used to meet financial reporting or internal controls requirements, auditors must comprehend the design of that technology. Effective internal controls are essential to mitigate the potential for improper initiation or alteration of information. These actions can go undetected when recorded, processed or reported in electronic form alone.

Regulators have cited challenges, such as technology that does not operate as intended due to coding errors when developed or intentional or unintentional changes made after the technology is deployed. In addition, in changing environments, computer code underlying complex technology can degrade over time, becoming less responsive. As a result, processes should be in place to continuously monitor and confirm that the output of an application remains consistent with expectations.

Accordingly, audit firms have begun asking their clients specific questions during the planning phase of an audit, such as: *"Have you implemented or do you plan to implement any emerging technologies to support financial reporting (for example, cloud*

computing, RPA or blockchain)?” This helps auditors gain a better understanding of RPA tools in the IT environment, which can impact evaluation of the design of internal controls.

Consideration of Risks and Internal Controls

Government agency leaders should consider the revised OMB Circular A-123, particularly its requirements for enterprise risk management (ERM), which requires an increased focus on developing and utilizing a risk-based approach to achieve agencies’ strategic, operations, compliance and reporting objectives. RPA solutions may introduce new risks to an organization if not managed appropriately.

An increased focus on the effectiveness of an agency’s internal controls systems related to RPA informs how these systems help achieve objectives. The Government Accountability Office (GAO) Green Book¹⁰ sets standards for effective internal controls in federal agencies. Leaders should follow these standards when assessing RPA, building a business case for it, determining an optimal operating model, identifying RPA solutions, and planning implementation. They should also understand RPA through the lens of internal controls. In audit planning, auditors will seek to understand automated processes as well as internal controls relevant to the audit.

Improper implementation or automation of the wrong processes (e.g., operational risks) may result in immediate financial losses to an agency. Bot-related errors affecting the integrity of cybersecurity programs or compliance with data privacy regulations may not only result in direct costs to the agency but also cause reputational concerns. Therefore, it is critical to determine how changes inform risk assessment, particularly those risks arising from IT, and whether modifications to existing standards, processes and structures (e.g., the control environment) are necessary. As agencies implement RPA, it is imperative they perform their own risk assessments associated with the processes being automated, design internal controls for it, and produce appropriate audit evidence.

RPA Governance in Government Agencies

An effective governance model establishes accountability throughout the automation lifecycle, from creation of the automation program to design and testing of bot functionality and outputs to bot implementation and, finally, to monitoring effectiveness of the automation program. It is important to identify an executive sponsor with appropriate knowledge of emerging technologies plus the authority to champion and lead the project in the agency. Oversight bodies may outline and develop a governance structure to encompass the following:

- Establish RPA policies and standards through a governance framework;
- Leverage existing internal controls and enhance and adapt them to the automated environment;
- Define and create access management policies and internal controls for bots to oversee the work of other bots;
- Adapt bots to detect and report errors so that human intervention can occur when needed;
- Manage bots through environment changes by implementing appropriate controls;
- Create compliance policies and tools to monitor and log bot output for enhanced transparency;
- Establish cross-functional working groups and assign responsibility to individuals for maintaining bots and resolving issues.

Achieve Effectiveness and Efficiency

RPA can be an effective solution for automating repetitive tasks, improving processes subject to audit, and contributing to effective risk management. RPA can help an organization achieve effectiveness and efficiencies in executing tasks that are critical to mission support, including timely reporting of financial and operational information and enhanced financial reporting. Bots not only follow prescribed protocols and procedures with precision, but also can be programmed to capture and maintain complete audit logs and automate reporting for a stronger audit process. Benefits for auditors include access to more audit data in a standardized, reliable, consistent format plus automated reporting that enables auditors to focus on analysis and decision-making, rather than manual data collection and consolidation.

Article Retrieved from: [AGA Newsletter: Winter 2019: Technology Threats, Trends and Tools \(pages 13-16\)](#)

Quarterly Meeting

In Person Training | Four Hour CPE

Tuesday June 18, 2019 | 10:00 am – 2:00 pm
San Francisco, CA

Presenter: **Avoiding Bias in Audits** - Justine Lazaro, Senior Policy Analyst with GAO
Yellow Book Changes - Charles W. Hester, CPA/CFE/CGFM

Location: San Francisco Federal Building
90 7th Street (between Market and Mission Streets), Suite 4-400, Fourth Floor Annex

Cost: The AGA chapter will provide lunch (sandwiches and beverages). The fee for this course is **\$50 for AGA Members, \$60 for non-members**

RSVP: If you would like to attend this training, please contact Chuck Hester via e-mail at CharlesHester@msn.com. Space is limited and spots will be filled on a first-come, first-served basis. If you register, and discover you cannot attend, please notify Chuck no later than June 14th. Recently, we have had a number of instances of people registering for a meeting or training session and then not showing up. This costs the Chapter, as we order and pay for lunch and coffee for the non-attendees. We do not wish to have to penalize no-shows, but we may have to if this continues. If you cannot attend, please let us know as soon as possible.

About the Presenters:

Justine Lazaro:

Justine is currently a Senior Policy Analyst in the Government Accountability Office (GAO)'s International Affairs and Trade Team. She recently led a multidisciplinary team's audit of U.S. democracy assistance worldwide and is now leading a review of an international trade and national security program. She has also significantly contributed to GAO's audit work on issues including combatting human trafficking, aid to Syria, and information sharing among the intelligence community.

Justine is passionate about Diversity and Inclusion (D&I) and has facilitated numerous sessions to help GAO and other entities recruit and retain a diverse talent pool and minimize the effects of unconscious bias. She is a certified D&I facilitator and serves as adjunct faculty for GAO's Learning Center.

Justine obtained a Bachelor of Arts in Psychology and Interdisciplinary Studies with an emphasis in organizational behavior from the University of California, Berkeley in 2007 and a Master's in Public Policy from the Goldman School of Public Policy at the University of California, Berkeley in 2009. She is a Public Policy and International Affairs Fellow and a National Pacific American Leadership Institute Fellow. In her spare time, she enjoys traveling and exploring with her husband and two toddlers.

Chuck Hester:

Charles (Chuck) Hester, Sr. served as the Western District Inspector General and Audit Manager for the Federal Emergency Management Agency (FEMA) until his retirement on September 30, 1995. Chuck currently conducts training sessions for numerous organizations, including the Association of Government Accountants'

Education and Research Foundation, and various other professional accounting and auditing organizations. In addition, Chuck has served as the Team Leader for External Peer (Quality Control) Reviews for Various national, state, and local government audit agencies.

Chuck is a member of various professional auditing and accounting organizations and has written several articles that have been published in professional journals. Chuck currently serves as member of the Qualifications Committee for the California Board of Accountancy.

Chuck is the recipient of the Faculty Excellence Award from the Graduate School. Chuck has also received numerous other awards including the Jack Birkholz Leadership Award presented by the Western Intergovernmental Audit Forum and the Education and Training Award presented by the National Association of Government Accountants.

AGA PDT 2019

In Person or Virtual Training | 24 Hour CPE

Sunday July 21st, 2019 – Wednesday July 24th, 2019

Hyatt Regency New Orleans – 601 Loyola Ave. New Orleans, LA 70113

Cost:	AGA member	Online	Email/mail
	Early (by June 21)	\$875	\$900
	Standard (after June 21)	\$975	\$1,000
	Nonmember	Online	Email/mail
	Early (by June 21)	\$1075	\$1,100
	Standard (after June 21)	\$1175	\$1,200

Program level: Intermediate

Prerequisite: This program is suitable for participants who are at least mid-level within an organization; have knowledge, skills and ability commensurate with that level; and have operational and/or supervisory responsibilities.

Advance preparation: None required

Delivery method: group live (in-person participant) or group Internet-based (virtual participant)

Learning objective: Taken as a whole, the learning objectives are to be a thoughtful, reflective process that addresses each participant's current and future professional plans, current knowledge and skills level and desired or required additional competence to achieve future work opportunities and/or professional responsibilities.

How to register

Online registration process

[attend in person in New Orleans](#)

[attend virtually from your home or office](#)

Credit Cards Only. Transactions secured by GeoTrust Inc.

Email/mail registration process

[attend in person in New Orleans](#)

[attend virtually from your home or office](#)

Email: Credit cards and purchase orders only.

Mail: All payment types.

Mail completed registration form with payment to:

AGA — 2019 PDT
2208 Mount Vernon Avenue
Alexandria, VA 22301-1314

Payment must accompany the registration form. Training registration will not be processed until full payment or a copy of the purchase order is received. Only U.S. dollars are accepted. Issued POs must be paid before the cancellation date for the registration to be valid. Phone or fax registrations are not accepted.

[For more information, see the PDT page on the AGA website.](#)

Reducing Risk in Performance Audits

In Person Training | Eight Hour CPE

Tuesday September 24, 2019 | 8:30 am – 5:00 pm

San Francisco, CA

Presenter: Robert Adachi, Director of Forensic Audits, EPA OIG (Retired)

Location: San Francisco Federal Building

90 7th Street (between Market and Mission Streets), Suite 4-400, Fourth Floor Annex

Cost: The AGA chapter will provide lunch (sandwiches and sodas) and morning coffee. The fee for this course is **\$125 for AGA Members, \$150 for non-members**

RSVP: If you would like to attend this training, please contact Chuck Hester via e-mail at CharlesHester@msn.com. Space is limited and spots will be filled on a first-come, first-served basis. If you register, and discover you cannot attend, please notify Chuck no later than September 20th. Recently, we have had a number of instances of people registering for a meeting or training session and then not showing up. This costs the Chapter, as we order and pay for lunch and coffee for the non-attendees. We do not wish to have to penalize no-shows, but we may have to if this continues. If you cannot attend, please let us know as soon as possible.

What keeps auditors up at night? The possibility that their work is wrong or that something was missed, otherwise known as audit risk. The Yellow Book defines audit risk as

"...the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud."

Usually this occurs just as the audit report is being written and the audit is being completed. But what can assist the auditor during the audit to reduce the risk and lessen their fears.

The Yellow Book requires that auditors plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. When risk factors are identified, auditors should document the risk factors identified, the auditors' response to those risk factors individually or in combination, and the auditors' conclusions. In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives. Fraud involves obtaining something of value through willful misrepresentation.

The class will discuss some fundamental planning steps that the auditor can perform in connection with attestations and performance audits to meet the Yellow Book requirements. We will discuss audit risk that can be used in the four types of performance audit defined in the Yellow Book. The class will also discuss some fraud detection steps that the auditor can take to reduce the audit risk.

This course will also discuss how an auditor can use either the Attestation Standards in Chapter 5 of the Yellow Book or the Performance Standards in Chapter 6 and 7 of the Yellow Book. Either set of standards can be used to achieve similar results. The main difference will be in the reporting and the level of field work needed in

certain areas. We will also discuss the various reporting formats that can be used and go through examples of various audits of grants and contracts that have followed both the Attestation and Performance Audit Standards.

About the Presenter:

Robert (Bob) Adachi graduated from the University of California at Berkeley's Haas School of Business and began his Federal career with the Internal Revenue Service. Bob then joined the Environmental Protection Agency Office of the Inspector General and has been involved in every type of audit conducted within the OIG ranging from performance audit to financial audits of grantees and EPA direct contractors. He has also provided assistance to the Office of Investigations in connection with grant and contract related fraud.

Bob has been the recipient of numerous awards including:

- President's Council for Integrity and Efficiency (PCIE) Awards for Excellence
- Council of the Inspectors General on Integrity and Efficiency (CIGIE) Awards for Excellence
- EPA Gold Medals for Commendable Service to the Agency
- OIG Honor Award for Exceptional Contributions

Bob was the Director of Forensic Audits for the EPA Office of Inspector General from October 2008 until his retirement in October 2015.

Bob has also been an instructor with the CIGIE and the Association of Government Accountants (AGA) and has made presentations to various organizations including the AGA, the Association of Certified Fraud Specialists, the Northwest and Western Intergovernmental Audit Forum, as well as numerous Government conferences and training courses.

Regulatory Review and Ethics for California Accounting & Auditing Professionals

In Person Training | Eight Hour CPE

TBD | 8:30 am – 5:00 pm

San Francisco, CA

Presenter: Charles W. Hester, CPA/CFE/CGFM

Location: San Francisco Federal Building

90 7th Street (between Market and Mission Streets), Suite 4-400, Fourth Floor Annex

Cost: The AGA chapter will provide lunch (sandwiches and sodas) and morning coffee. The fee for this course is **\$125 for AGA Members, \$150 for non-members**

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Ethics is a cornerstone in every profession, especially for Certified Public Accountants. The public, and employers, place a significant trust in CPAs and there is inherent in that trust, the expectation that a CPA will know and understand the legal and ethical standard that apply. However, those standards are of an ever-increasing complex order and lack of understanding the ethical and legal standards can expose a CPA to risk of breach in compliance or even malpractice. This course is designed to provide CPAs with critical guidance and updated information on the current standards.

A portion of this course is designed to meet the California Board of Accountancy's requirement for two-hour of Regulatory Review. This session, approved by the Board of Accountancy and entitled *Conduct and Ethics Requirements for California Accounting and Auditing Professionals*, will provide a review that is specific to the practice of public accountancy in California, the current California Accountancy Act, and California Board of Accountancy regulations. The session will also cover historic and recent disciplinary actions taken by the California Board including highlights where the conduct of the licensee led to the discipline.

A separate portion of the course is designed to meet the four-hour ethics education requirement of the California Board of Accountancy. The ethics content includes a review of nationally recognized codes of conduct emphasizing how the codes relate to professional responsibilities; case-based instruction focusing on real-life situational learning; ethical dilemmas facing the accounting professional; and business ethics, ethical sensitivity, and consumer expectations.

The final separate two-hour portion of the course is designed to provide government auditors, accountants, and fraud specialists and/or forensic accountants, with the critical guidance and updated information on their current standards.

CPE CREDIT: Total 8.0 CPE (Continuing Professional Education)

- 2.0 Hours Regulatory Review
- 4.0 Hours General Behavioral Ethics
- 2.0 Hours Technical CPE
-

Objectives:

- Ensure that participant's knowledge and understanding of ethical and professional conduct standards, as well as statutory and regulatory requirements in California, is current
- Ensure that participants knowledge and understanding of ethical and conduct standards of their chosen profession is current, whether they are in public, private or government practice
- Review the current California Accountancy Act, including but not limited to the specific Articles required by the Board
- Examine current California Board of Accountancy Regulations, including but not limited to the specific Articles required by the Board
- Provide a general understanding of the types of activities that have caused other accounting and auditing professionals to be perceived as in violation of conduct and ethical standards
- Provide a general overview and update of current ethical standards for various professional organization, such as the AICPA, CalCPA, GAO, PCIE, AGA, IIA, ACFS, ACFE, IMA, and others
- Provide a reference guide of recent publications on conduct and ethics for accounting and auditing professional, including (but not limited to) copies of the California Accountancy Act and the California Accountancy Regulations
- Provide a review of disciplinary actions taken by the California Board of Accountancy and other professional organizations

Key Topics:

- The California Business and Professions Code and the California Board of Accountancy Regulations
- Codes of Professional Conduct of various professional accounting organizations
- Codes of Professional Conduct of various fraud specialist and forensic accounting organizations
- California and National case law involving public accountancy
- Duties of accounting professionals under the Sarbanes Oxley Act
- A CPAs duty when fraud is discovered
- California Board of Accountancy disciplinary actions, including highlights of historic and recent misconduct which led to licensees being discipline

About the Presenter:

Charles (Chuck) Hester, Sr. served as the Western District Inspector General and Audit Manager for the Federal Emergency Management Agency (FEMA) until his retirement on September 30, 1995. Chuck currently conducts training sessions for numerous organizations, including the Association of Government Accountants' Education and Research Foundation, and various other professional accounting and auditing organizations. In addition, Chuck has served as the Team Leader for External Peer (Quality Control) Reviews for Various national, state, and local government audit agencies.

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