

System Analysis

Two “8” Step Programs

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This is the second in a series of articles addressing Auditing in general and Auditing as a function of Property Management. The first article addressed Auditing Concepts and Standards. This article addresses the System Analysis process. The third article will look at the role professional organizations play in the field of auditing. The potential or suggested role that National Property Management might take will be a major part of that discussion.

Review of Auditing Concepts and Standards

This article provided the reader with the general concepts of auditing and the ethical values that establish the standards for all audits. We recognized that Audits and System Analysis are related processes. In fact, a System Analysis is a type of Audit that examines a property system for the purpose(s) of discovery, investigative reason(s), risk assessment, or validation. All of the purposes are elements of contract compliance, performance, and financial diligence in the interest of the contract. The findings of a System Analysis, like Audits, are an assertion of financial liability or risk of financial liability.

The Two Sides of System Analysis

The two sides are better known as the Auditor and the Audited (or Auditee). In the first article, “Auditing Concepts and Standards,” I talked a lot about what the Auditor does and how an Auditor conducts an Audit. I talked about “Standards of Fieldwork,” but I didn’t address any detail. Now we will talk about fieldwork, preparation for fieldwork, the actual conduct of the system analysis, to include the final report and corrective actions.

We will also talk about the other side, the Auditee and the topics that parallel or even precede the work of the Auditor. You will recognize that these topics will describe what you do on a day-to-day basis to stay one or two steps ahead of any auditor who comes your way.

The System Analysis from the Auditors Standpoint (8 Steps)

Auditor Sequence Step 1

The first step in the audit process is to find out what type of audit is to be conducted. Senior management must

provide guidance to an auditor to state that an audit will be conducted and to point out the purpose of the audit. Is the audit to discover, to investigate something already discovered, to access risk, or to validate the perceived status or official status of the system to be audited?

Auditor Sequence Step 2

The second step is to notify the Auditee, formally, in writing, as to the time and date of the proposed audit. Outline the scope of the audit. Set up a pre-audit meeting with senior management and the group(s) being audited to describe the conduct of the audit and to coordinate any problems that might be anticipated. The letter should also define any requirements for data and give a projected close date for the completion of the audit.

Auditor Sequence Step 3

The third step is to gather background data in order to properly prepare for the audit. The background data is necessary to prepare a smooth transition into the actual audit. Examples of background data are; copies of problem or white papers pointing to discovery, risk or system failure, copies of previous external and internal audits and corrective actions, copies of system procedures, copies of record printouts.

Copies of printouts need to be carefully prepared at the request stage. Most of the other records are already on hand and well documented. The printout records need to be segregated by types of property in a given sequence so that random samples can be drawn from the population. The sequence can be ascending or descending by part number but they should also be numerated starting with 1 and going in an ascending order to the last number. They also need to be as of a specific date and be all-inclusive to represent their designated populations. Consideration must be given to show part numbers, serial numbers, descriptions, acquisition prices and locations, as a minimum. These attributes are all necessary to make the job easier for the auditor and keep the frustration level low, low, and lower, if possible. After all, you can imagine how frustrating it would be to look a listing of 50,000 part numbers in a random order.

Auditor Sequence Step 4

The fourth task of an auditor can now begin. That task is to analyze the accumulated data to determine a course of

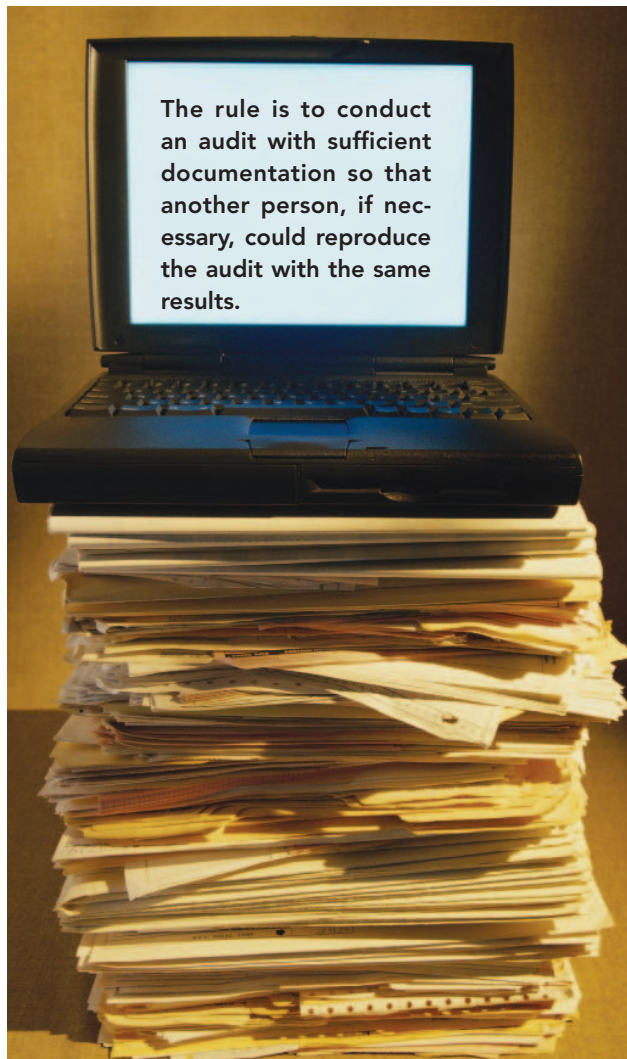
action for the audit. What are the types of property, what are the normal and special criteria for evaluating the available system data and property lists. The lists must be divided and evaluated functionally in accordance with agency criteria. Special criteria are based upon the guidance given by management as the audit purpose.

There is an extensive amount of detail work that must be accomplished by the auditor before he/she ever sets foot in the audit area. Worksheets must be prepared from all of the data. These worksheets can be based upon random items selected or objective items to magnify a specific area selected for inspection. One may not assume that all items being looked at are random. There is no mandate to randomize all samples. Some samples are the entire population of certain types of property. An example would be high dollar or very sensitive items. Random samples are meant to provide a statistically accurate representation of a population with relatively few samples.

Auditor Sequence Step 5

The fifth task of the auditor is to conduct the initial meeting and begin the audit. The auditor must always keep in mind the Professional Standards, General Standards, Standards for Fieldwork and Standards for Reporting during the entire life cycle of the audit. The key to making or breaking an audit is the existence, compliance of and with contractual requirements as demonstrated through the organizations System Procedures.

A good auditor will keep the auditee informed throughout the audit as to the day-to-day findings and potential impact of those findings on the outcome of the audit. The auditor must always keep in mind the minor discrepancy and a systemic problem. Minor discrepancies should never impact on the outcome of an audit unless they are overwhelming in their frequency or trivialized by the auditee. Minor discrepancies that are not corrected or are ignored by the auditee are not minor discrepancies but express a poor perception of accountability that could be considered systemic. Discoveries that are identified as systemic will cause an intense scrutiny to define their cause and lead to a possible avenue for corrective action.



Auditor Sequence Step 6

The sixth task of an auditor is to finalize and present the findings of the system analysis. This is accomplished after leaving the scene of crime (oops!). I meant to say system analysis. The auditor makes a final determination of what is important and what is not. The auditor then reviews the draft findings with the oversight management before finalizing the system analysis report. The auditor spends a lot of time, during this sixth task, organizing the audit files. This is an important aspect of every audit. It is accomplished in a way that the audit can be reviewed for correctness in the future. The rule is to conduct an audit with sufficient documentation so that another person, if necessary, could reproduce the audit with the same results. The auditor makes arrangements to meet with the auditee senior management and other designated interested supervisors and property

persons to present the final report and make a statement of opinion regarding the fiscal accountability, contract compliance and the status of the property system. The auditee is provided the opportunity to ask pertinent questions and is then given a specific period of time to create a corrective action plan and submit it to the auditor for approval.

Auditor Sequence Step 7

The seventh task of an auditor is to monitor the approved corrective action plan and to see that it is executed in a timely manner so as not to disrupt the contract performance while achieving compliance and accountability. Most plans contain elements to correct system procedures in a way that will satisfy all of the audit goals.

Auditor Sequence Step 8

The eighth and final task of the auditor is to write a final approval letter to the auditee and close the audit with a satisfactory system status. Or! Upon failure of the auditee to resolve the corrective actions necessary to renew system satisfactory status, the auditor must explain the delay to agency senior management (most often the contracting officer) and make a recommendation for whatever action is

necessary to correct the problems that exist. Such actions could be as strong as system withdrawal and full liability for any losses incurred by the auditee or withdrawal of the contractor from contracting with the government.

The System Analysis from the Auditees Standpoint (8 Steps)

Auditee Sequence Step 1

The first step is to understand who you are, why you are here and what is expected of you. You are here as an employee of an agency or a contractor to insure compliance with the regulations and contractual provisions relating to property management. You are expected to know your job better than any one else and to prevent your agency or employer from knowingly or unknowingly violating regulations and contractual provisions. Every agency and every contract that incorporates the provisions of Federal Acquisition Regulations has build in training funds to permit you to become a better professional. Why? You are maintaining the property records. Good training is there for you, whether you work for a government agency or work for a contractor and have the responsibility for government/customer property. The customer needs you trained to do a proper job.

Auditee Sequence Step 2

The second step is to know and understand the value of good procedures. The property system consists of procedures that define "What you do." We have always known that the "Property System consists of Procedures." It has been further defined in the 1990's through the wide acceptance and implementation of ISO where ISO Standards specifically required procedures for property management. The procedures must be driven by agency or corporate policy and they must be compliant with customer and corporate regulations. The test of an audit or system analysis is basically threefold:

1. Are the procedures adequate to cover the activities of the organization? That can be interpreted to say, do the procedures cover all the elements of property management.
2. Are the procedures compliant with policies, regulations and contract terms?
3. Are the procedures being followed?



Since we are talking about procedures, it must be said that a procedure has little value if the user has never seen the procedure or cannot understand it when it is seen. Always keep in mind that the young person who just started work down on the receiving dock or over in the warehouse has the biggest statistical opportunity in the business to mess up your life. Write

your procedures for that person to read and understand and you may be eliminating the possibility of 50% of your data errors.

Procedures must reflect what you do (always compliant) in order for them to work.

Auditee Sequence Step 3

Learn the meaning and differences of the words "Subjective" and "Objective." On one hand, something is subjective when we can talk or argue about it. It isn't clear to everyone. Oh! You will find plenty of people who will say they can define a subjective word or phrase, but it doesn't change anything. An example of a subjective phrase would be, "in the shortest possible time." What is the shortest possible time? Another phrase that is subjective might say, "low dollar items." What is a low dollar item? If you are rich it could be big bucks; if you are poor it could be less than a dollar. Subjective words and phrases can cause you a lot of problems in day-to-day business and unthinkable problems during a system analysis. Subjective words and phrases can become objective when we can get people to agree to their meaning and subsequently incorporate that meaning into our procedures so that we can say what we do and mean what we say.

Objective is a word that defines the nature of the word to mean one thing. An objective word or phrase is one that everyone can agree to the meaning of. If we use the same two examples from the previous paragraph we can easily explain how subjective becomes objective. If you and I agree that "the shortest possible time" our receiving department can process from dock to stock and properly document property being received is not more than two days, then we have defined "the shortest possible time" as "two days". Let's make a similar agreement about the meaning of "low dollar" and say that, "low dollar means any item costing less than \$10 when used as bench stock." Well how about that? Now we can argue about what bench stock is! So we didn't really make low dollar an objective phrase, did we? The American Society for Testing and Materials (ASTM) E2135 states that "Bench Stock" is "Low cost, high usage, non-sensitive consumable material

issued to work areas. Quantities of such stock do not normally exceed that amount that would normally be consumed within a 30-day period, or as established in the property control system.” There! Now you know all the more about how little you knew in the first place.

Auditee Sequence Step 4

Continually test your system throughout the year so that you know your system and can be assured that it is always prepared for a system analysis. Continually devise exception reports to evaluate your system. Get out there and talk to the people who make your system work. Find out if they know the procedures and are trained to follow them. You will find that if they can talk to you and describe their jobs the way the procedures outline them, there should be no problem. Train to procedures. That means that the procedure itself is the training manual for the job.

Auditee Sequence Step 5

Be cool! Don't loose it! Know yourself and your system. Be confident. Always take the initiative and clean up any little problems that you will run into. Nothing is perfect in this world so there will always be little problems somewhere. Remember not to run off at the mouth and give away the store. If there are small issues out there, let the auditor find them rather than you telling the auditor what is wrong with your system. For you to tell the auditor would be rather self-defeating, don't you think so? Remember to always accompany an auditor. Never let an auditor stray away to question people who may not have the slightest idea what is happening. There are some of those out there also. Do your best to confine the audit to the subject matter with people who are directly involved with property.

Auditee Sequence Step 6

Keep your senior management informed throughout an audit. No surprises! Too many surprises and you will have a surprise tomorrow morning when you come to the office. It may be pink!

Auditee Sequence Step 7

Remember to be faithful to your corrective action plans when you do have a few problems. The auditor must approve your plan. Be timely and notify the auditor if you think you will fall behind because of unforeseen circumstances. After all, you can control any other type of circumstance, can't you?

Auditee Sequence Step 8

Every good program has eight steps; therefore this program has eight steps also. This eighth step requires you to make sure that the auditor has a decent place to work. A

place that brings all the background material needed for the audit to go smoothly and quickly. Quiet, good lighting and an open work area. Providing a computer and telephone is good also. A happy auditor is always better than an unhappy auditor. Now go back and reread the first seven steps so you don't mess up your next audit.

Summary:

The auditor and the auditee both have their jobs cut out for them. Both parties deserve mutual respect. Both parties are trying to do the best job possible. There are many things that could be added to both the Auditors steps and the Auditees steps. Follow the steps that you see here and you should be successful with your audits.

Remember to work out all the “subjective” issues that you have before an audit and document the results as “objective” statements in your procedures. An auditor approves the auditee's procedures by virtue of the auditor's statement of system status. To say that a system has problems automatically disapproves that portion of the procedures where the problems exist. To say that the system is satisfactory is to approve the procedures, which are the system.

Say what you do (in your procedures) and do what you say (in real life). ♦

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