

*Submitted by
Laura Hirst*

**MICHIGAN
OFFICE OF THE AUDITOR GENERAL**

**AUDITING INFORMATION
AND PROTOCOLS**



**Thomas H. McTavish, C.P.A.
Auditor General**

EXECUTIVE SUMMARY

The Michigan Constitution establishes a system of checks and balances between the branches of State government. Accordingly, the Constitution provides for the appointment of the Auditor General and authorizes audits of all branches, departments, offices, boards, commissions, agencies, authorities, and institutions of the State. Providing one of the few legislative checks over the executive branch of State government, financial and performance audits conducted by the Office of the Auditor General (OAG) provide the Legislature and the public with an independent assessment of government programs. The Constitution has not exempted any programs or records from the authority and responsibility of the Auditor General.

The role and constitutional responsibility of the Auditor General is to perform financial post audits and performance post audits of State programs. These audits provide a mechanism for the Legislature to obtain objective feedback on the operation of programs and the use of funds that are delegated to the executive branch of government. In order to provide objective feedback to the Legislature, and in the best interests of government operations, it is critical that the Auditor General have the ability to gather and review all documentation pertinent to the programs being examined. The Legislature and general public have a right to have fair and accurate information pertaining to all government-operated programs. Any inability to access program data limits the OAG's ability to identify program strengths and weaknesses and recommend improvements.

The Constitution and the *Michigan Compiled Laws* provide for and require the Auditor General to have access, including subpoena power, to all records, files, and other information to effectively complete the audit. Such access is a vital requisite for the Auditor General to fulfill his constitutional and statutory responsibility to conduct timely and objective audits.

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

- *Article IV, Section 53 of the Michigan Constitution*

TABLE OF CONTENTS

	<u>Page</u>
I. Directory	3
II. Introduction	4
III. Types of Audits	6
IV. Auditing Standards	7
V. Audit Process	8
VI. Audit Report Distribution	10
VII. Audit Confidentiality	11
Tools for Agencies	
Appendix A - Disclosure of Interest and Confidentiality Affirmation	14
Appendix B - Checklist of Agency Audit Participation	15
Appendix C - Glossary of Commonly Used Financial Audit Terms (Including Single Audit Terms)	16
Glossary of Commonly Used Performance Audit Terms	22

I. Directory

Michigan Office of the Auditor General

Thomas H. McTavish, CPA Auditor General
 Scott M. Strong, CPA, CIA Deputy Auditor General
 Craig M. Murray, CPA, CIA Director of Professional Practice
 Kimberly E. Jacobs, CPA, CISA, CNE Chief Information Officer
 Paul J. Green, CPA, CIA, CISA Director of Administration
 Kelly C. Miller State Relations Officer

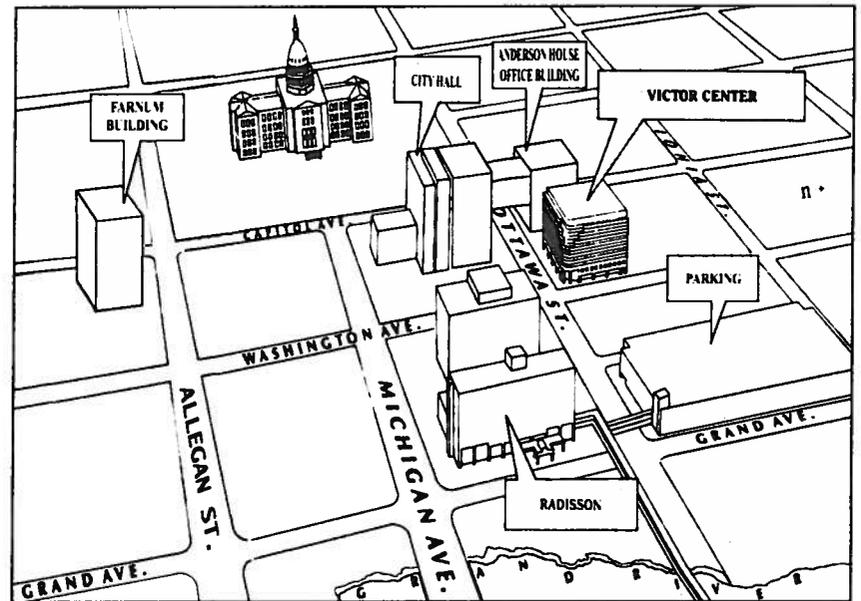
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 Victor Center, Sixth Floor
 201 N. Washington Square
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Where We Are Located



II. Introduction

Michigan Office of the Auditor General

Establishment

The Michigan Constitution established the Office of the Auditor General (OAG) within the legislative branch of State government. In accordance with professional standards, this organizational placement allows the OAG to maintain its independence from the agencies that it audits.

Mission

The mission of the OAG is to improve the accountability for public funds and to improve the operations of State government for the benefit of the citizens of the State of Michigan. The OAG best accomplishes its mission by committing to total quality; by adhering to professional standards of the auditing profession; and by promoting an atmosphere of mutual trust, honesty, and integrity among OAG staff and the people they serve.

Overall Goal

The OAG's overall goal is to improve accounting and financial reporting practices and to promote effectiveness and efficiency in State government.

Government officials and employees are accountable to the citizens of the State of Michigan for the proper handling of public funds and are responsible for managing State resources effectively, efficiently, and economically. OAG audit reports provide continuous information to assist the Legislature in its oversight of individual State funds and agencies. OAG audit reports also provide department administrators with an independent and objective evaluation of their operations and citizens with a measure of accountability.

Authority for Audit

The OAG's responsibility to conduct post financial and performance audits of State government funds and operations is derived from both the Constitution and statute.

Constitutional Authority

The constitutional authority for the Auditor General to conduct audits is contained in Article IV, Section 53 of the Michigan Constitution, which states, in part:

The auditor general shall conduct post audits of financial transactions and accounts of the State and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The Michigan Attorney General has repeatedly upheld the Auditor General's constitutional authority with several opinions that affirm the Auditor General's unrestricted access and authority to examine all records held by State agencies, including confidential records and records held by a State agency not directly under audit.

Statutory Basis

The Auditor General's authority is further clarified in Section 13.101 of the *Michigan Compiled Laws* as follows:

Upon demand of the auditor general, deputy auditor general, or any person appointed by the auditor general to make the audits and examinations provided in this act, the officers and employees of all branches, departments, offices, boards, commissions, agencies, authorities, and institutions of this state shall produce for examination all books, accounts, documents, and records of their respective branch, department, office, board, commission, agency, authority, and institution and truthfully answer all questions relating to their books,

accounts, documents, and records of their respective activities and affairs.

In connection with audits and examinations described in this act, the auditor general, deputy auditor general, or any person appointed to make audits and examinations may issue subpoenas, direct the service of the subpoena by any police officer, and compel the attendance and testimony of witnesses; may administer oaths and examine any person as may be necessary; and may compel the production of books, accounts, papers, documents, and records.

III. Types of Audits

Financial Audits

Financial audits are designed to provide reasonable assurance about whether the financial statements and/or financial schedules of an audited entity are presented fairly in all material respects in conformity with generally accepted accounting principles. Other objectives of financial audits, which provide for different levels of assurance and entail various scopes of work, may include providing special reports for specified elements, accounts, or items of a financial statement and/or financial schedule.

Single audits, which are financial audits performed in accordance with the Single Audit Act Amendments of 1996, are designed to meet the needs of all financial report users, including an entity's federal grantor agencies. Single audits require the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133.

Performance Audits

Performance audits provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and

oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The OAG also follows up material audit findings from its performance audits to determine whether agencies complied with OAG recommendations.

We use a risk-based approach when selecting activities to be audited. This approach results in our audit effort being focused on operational areas having the greatest probability for needing improvement as identified through our preliminary review, hence limited audit effort is devoted to reviewing operational areas that appear relatively effective or efficient. By design, our limited audit resources are used to identify where and how improvements can be made and consequently our audit reports are prepared on an exception basis. To the extent practical, we add balance to our audit reports by presenting noteworthy accomplishments for exemplary achievements identified during our audit.

IV. Auditing Standards

Audit activities are performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States.

The basic premise of *Government Auditing Standards* is that public officials and employees are responsible for:

- Effective, efficient, and economical use of resources;
- Complying with applicable laws and regulations;
- Establishing and maintaining effective controls; and
- Providing reports to those to whom they are accountable.

The Comptroller General of the United States requires all organizations conducting government audits to participate

in an external quality control review at least once every three years. The National State Auditors Association (NSAA) has conducted an independent quality control review of the OAG and concluded in a report that the system of quality control at the OAG was ". . . suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards."

V. Audit Process

A typical audit process is conducted in three phases: planning, audit fieldwork, and report preparation.

Planning Phase

The planning phase sets the foundation for the entire audit process. Typical activities completed in the planning phase include:

- Conduct the audit entrance meeting.
- Conduct a preliminary survey (e.g., review organization structure, legislation, mission statement, goals, policies and procedures, benchmarks/best practices, audits of similar entities, news articles, and agency-produced reports).
- Hold brainstorming session.
- Develop scope and objectives.
- Develop audit plan and audit budgets.

Audit Fieldwork Phase

The audit fieldwork phase marks the beginning of the formal audit activities. Much of the agency work required during this phase will be driven by the scope and objectives and other agreements set forth in the planning phase. Typical activities completed in the audit fieldwork phase include:

- Interview agency personnel.
- Obtain data via inquiry, surveys, samples, etc.
- Identify criteria (what should be).
- Determine materiality.
- Analyze data.
- Validate evidence.
- Conduct periodic agency update meetings.

- Issue audit memorandums (preliminary findings).
- Analyze agency reaction and additional evidence.
- Conduct field closeout meeting to discuss preliminary findings.

Report Preparation Phase

The report preparation phase is the final formal stage of an audit. Major activities include:

- Submit preliminary report.
- Conduct internal quality assurance process.
- Provide agency with conference copy.
- Obtain agency preliminary response.
- Conduct audit conference.
- Finalize report.

Agency Reaction and Response to Audit Report

To help ensure balance in OAG audit reports, we include an agency preliminary response after each recommendation. These responses include a brief summary of the audited entity's position or plan to comply with each recommendation. The OAG will continue to process and ultimately release the audit report without the agency preliminary response if significant delays occur by the audited entity in submitting such response.

Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) establish requirements for following up audit findings and recommendations for executive branch departments and subunits. Audited agencies are required to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan. This plan is in addition to the agency preliminary response.

Each plan must indicate (1) the audit recommendations the agency complied with, (2) the audit recommendations the

agency agrees with and will comply with, and (3) the audit recommendations the agency disagrees with.

When the OAG performs an audit of a university or a community college, the annual appropriations acts require the principal executive officer of the audited institution to submit a written response to the audit to the OAG, the House and Senate Fiscal Agencies, and the State Budget Director. Community colleges are also required to respond to the House and Senate Appropriations Committees and to the Workforce Development Agency. The response is due within 60 days after the audit report has been issued and should specify the action taken by the institution regarding the audit report's recommendations.

VI. Audit Report Distribution

An audit report and its supporting evidence are considered confidential until the report's official release to the Legislature, the general public, and the press. Once a report has been released, it is public information and, as such, is available upon request.

To Whom Audit Reports Are Issued

Audit reports issued by the OAG are typically addressed to the audited entity's chief executive officer and/or to the chair of its governing board or commission. Audit reports are typically forwarded via e-mail.

On the day prior to the official release date of an audit report, e-mail notifications are sent to the following:

- The audited entity's chief executive officer and/or the chair of its governing board or commission.
- House and Senate Quadrant Leadership.
- Relevant House and Senate Standing Committee members.
- Office of the Governor.
- The legislator(s) who requested the audit (if applicable).

On the official release date, the report is posted to the OAG Web site and e-mail notifications containing a link to the report are also sent to the following:

- All legislators.
- House and Senate Fiscal Agencies.
- Office of Financial Management, Department of Technology, Management, and Budget.
- All others who have specifically requested a copy of the report being issued.

The OAG does not issue press releases on any audit report. However, a copy of each audit report is sent to the Capitol pressroom and the OAG responds to media inquiries relative to issued reports.

OAG Contact With the Legislature

The audit report is the formal written contact that the OAG has with the Legislature. Upon request, the OAG provides legislative briefings to key members of oversight and appropriations committees and other members of the Legislature who have expressed a particular interest in specific topics or audit reports. Periodically, the briefings result in OAG staff testifying at related hearings. Also, the Auditor General or his designee testifies on audit-related activities, as requested by the Legislature.

Furthermore, the OAG employs a State Relations Officer, whose primary responsibility is to enhance communication and effective relationships with the Legislature, the legislative leadership, and the Executive Office. The State Relations Officer also facilitates communication with the legislative fiscal agencies, the judicial branch, State departments, and universities and community colleges.

VII. Audit Confidentiality

Frequently during the course of OAG audits, auditors must obtain and review confidential information. For example, auditors examine tax returns, inmate records, medical records, client case files, and student academic and financial aid

records. Disclosing confidential information may have certain legal penalties as well as being considered serious misconduct.

The OAG's confidentiality and security policies are designed to ensure that its employees comply with statutory requirements, American Institute of Certified Public Accountants (AICPA) auditing standards, *Government Auditing Standards*, and Rules of the Civil Service Commission.

The AICPA Code of Professional Conduct requires that a member in public practice shall not disclose any confidential client information without the specific consent of the client. *Government Auditing Standards* specify that auditors should be honest and candid with the audited entity and users of the auditors' work in the conduct of their work, within the constraints of the audited entity's confidentiality laws, rules, or policies.

The Rules of the Civil Service Commission state that a classified employee shall not divulge or release, for financial gain for the employee or a member of the employee's immediate family, any confidential information that is not by law, rule, regulation, or court order available to members of the general public.

The OAG ensures that it meets statutory and professional standards related to confidentiality requirements by working closely with State agencies in identifying confidential data and following our detailed procedures for obtaining, storing, and disposing of confidential agency data. The OAG also requires its staff to annually affirm their understanding of OAG policies on confidentiality (Appendix A).

TOOLS FOR AGENCIES

Appendix A:

**Office of the Auditor General
Disclosure of Interest and Confidentiality Affirmation
For Calendar Year _____**

I, the undersigned, an employee of the Office of the Auditor General, in order to comply with professional standards and State statutes, rules, and regulations and to avoid an appearance of conflict of interest, do hereby make the following statements and assurances:

1. I am not related by blood or marriage to any employee of the State of Michigan or to any official of a separate governmental unit, agency, or nonprofit corporation included within the State of Michigan reporting entity, except as listed here:

NAME	DEPARTMENT	RELATIONSHIP

2. Neither I nor any member of my immediate family have any personal or financial interest in any business or entity with which I have direct contact while performing official duties as a State classified employee or are the owner of any obligation or indebtedness of the State of Michigan, its political subdivisions, or municipal corporations, except as listed here:

3. I have not been employed by any governmental unit, agency, or nonprofit corporation receiving funds from the State, other than those listed here:

4. I have no other potential conflicts of interest, including any personal or professional biases toward an entity or its programs, other than those listed here:

5. I am not engaged in any political activities, as defined in Auditor's Manual Section 2-01.12, other than those listed here:

6. OAG employees frequently access personal and confidential information. It is imperative that this information remain confidential. Therefore, as an employee of the OAG, I certify that I am aware of the OAG confidentiality policies (Policies 2-01, 4-03, 5-07, 7-01, and 7-06) and will make every effort to maintain the confidentiality of information obtained as a result of my position with the OAG.

7. All information contained in OAG conference copies, draft versions of OAG audit reports, audit memorandums, or any other information that might be included in an OAG work product is confidential information. As an employee of the OAG, I understand and affirm my responsibility not to disclose any conference copies, draft versions of OAG audit reports, audit memorandums, or any other information that might be included in an OAG work product without appropriate approval.

By my signature below, I affirm that all of the above is true and complete to the best of my knowledge. Should the personal or financial interests of myself or my family members change, I will submit new information immediately. I acknowledge that any material misstatement herein shall be adequate grounds for disciplinary action. I also acknowledge that failure to follow OAG confidentiality policies and/or disclosing information contained in OAG conference copies, draft versions of OAG audit reports, audit memorandums, or any other information that might be included in an OAG work product without appropriate approval, will be considered to be serious misconduct and shall be adequate grounds for disciplinary action pursuant to Auditor's Manual Procedure 2-16.

EMPLOYEE NAME (PLEASE PRINT) _____ DATE _____

SIGNATURE _____

Appendix B:

Checklist for Agency Audit Participation

Planning Phase

- Name the audit liaison.
- Organize an audit response team.
- Begin to document data location and availability.
- Assign staff to data needs and data tracking.
- Develop an internal and external communication strategy.
- Understand the audit schedule, opportunities for input and technical review, and when information will become public.
- Agree on a confidential data management plan, if necessary.

Audit Fieldwork Phase

- Review the engagement letter and respond with questions as necessary.
- Participate in the entrance meeting, including agency staff responsible for responding to the audit requests.
- Identify staff most knowledgeable about agency data.
- Respond to data requests in a timely fashion.
- Ensure that all data provided is accurate, reliable, and complete and includes data definitions, protocols, etc.
- Analyze and respond timely to all audit memorandums issued by the OAG audit team.

Report Preparation Phase

- Review draft audit report for accuracy and completeness.
- Ask clarifying questions of the auditor as soon as possible after receipt of the report.
- Provide additional clarifying information to the auditor.
- Develop one centrally managed response indicating agreement or disagreement with each recommendation. Agencies may wish to also indicate the agency's progress in implementing the recommendations.

Appendix C:

Glossary of Commonly Used Financial Audit Terms
(Including Single Audit Terms)

adverse opinion See "auditor's opinion" for definition.

auditor's opinion The Office of the Auditor General issues opinions, as applicable, on financial statements, financial schedules, supplemental financial information, and compliance with requirements for major federal programs. The types of auditor's opinions are:

a. **Unqualified opinion:**

(1) **Financial presentation:** An unqualified opinion states that the financial statements, financial schedules, or supplemental financial information are fairly presented in conformity with generally accepted accounting principles.

(2) **Compliance:** An unqualified opinion states that the audited entity complied, in all material respects, with the cited compliance requirements applicable to each major federal program.

b. **Qualified opinion:**

(1) **Financial presentation:** A qualified opinion identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial statements, financial schedules, or supplemental financial information.

(2) **Compliance:** A qualified opinion identifies a scope limitation or material noncompliance with one or more of the cited compliance requirements applicable to each major federal program.

c. **Adverse opinion:**

(1) **Financial presentation:** An adverse opinion states that the financial statements, financial schedules, or supplemental financial information are not fairly presented in conformity with generally accepted accounting principles.

CFDA

Catalog of Federal Domestic Assistance; the catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.

CFR

Code of Federal Regulations; the codification of the general and permanent rules published by the departments and agencies of the federal government.

cluster

A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.

deficiency in internal control over federal program compliance

The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. These deficiencies are typically categorized as significant or material:

a. **Significant deficiency in internal control over federal program compliance:** A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

	<p>b. Material weakness in internal control over federal program compliance: A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.</p>
deficiency in internal control over financial reporting	<p>The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. These deficiencies are typically categorized as significant or material:</p> <p>a. Significant deficiency in internal control over financial reporting: A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.</p> <p>b. Material weakness in internal control over financial reporting: A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.</p>
financial audit	<p>An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.</p>
GAAP	<p>generally accepted accounting principles; a technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time. Also cited as "accounting principles generally accepted in the United States of America."</p>

GASB	<p>Governmental Accounting Standards Board; an arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.</p>
internal control	<p>A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.</p>
low-risk auditee	<p>As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual single audit and it meets other criteria related to prior audit results. In accordance with State statute, this single audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.</p>
material misstatement	<p>A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.</p>
material noncompliance	<p>Violations of laws, regulations, contracts, and grants that could have a direct and material effect on <i>[insert "major federal programs or on" for single audits]</i> financial schedule and/or financial statement amounts.</p>
material weakness in internal control over federal program compliance	<p>See "deficiency in internal control over federal program compliance" for definition.</p>

material weakness in internal control over financial reporting See "deficiency in internal control over financial reporting" for definition.

OMB U.S. Office of Management and Budget; a cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

other noncompliance Violations of contracts or grant agreements that are not material to the financial schedules or financial statements but should be communicated to management in accordance with *Government Auditing Standards*. Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control deficiencies that may be communicated to management in accordance with *Government Auditing Standards*.

qualified opinion See "auditor's opinion" for definition.

questioned cost A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

significant deficiency in internal control over federal program compliance See "deficiency in internal control over federal program compliance" for definition.

significant deficiency in internal control over financial reporting See "deficiency in internal control over financial reporting" for definition.

single audit A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR *State of Michigan Comprehensive Annual Financial Report.*

subrecipient A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion See "auditor's opinion" for definition.

Glossary of Commonly Used Performance Audit Terms

audit finding The Office of the Auditor General categorizes its audit findings as either reportable conditions or material conditions:

- a. **Reportable condition:** A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
- b. **Material condition:** A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.

continuous quality improvement (CQI) A process that aligns the vision and mission of an organization with the needs and expectations of internal and external customers. It normally includes a process to improve program effectiveness and efficiency by assessing performance indicators that measure outputs and outcomes related to the program vision, mission, goals, and objectives.

effectiveness Success in achieving mission and goals.

efficiency Achieving the most outputs and the most outcomes practical with the minimum amount of resources.

goal An intended outcome of a program or an entity to accomplish its mission.

input A resource (e.g., staff hours or expenditures) that is consumed in producing outputs.

internal control The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.

material condition See "audit finding" for definition.

mission The main purpose of a program or an entity or the reason that the program or the entity was established.

objective Specific outcome(s) that a program or an entity seeks to achieve its goals.

observation A commentary that highlights certain details or events that may be of interest to users of the report. An observation differs from an audit finding in that it may not include the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.

outcome An actual impact of a program or an entity.

output A product or a service produced by a program or an entity.

performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
performance measures	A composite of key indicators of a program's or an activity's inputs, outputs, outcomes, productivity, timeliness, and/or quality. Performance measures are a means of evaluating policies and programs by measuring results against agreed upon program goals or standards.
performance measurement system	A system for capturing and processing data to determine if a program or an entity is achieving its goals.
performance standard	A desired level of output or outcome.
reportable condition	See "audit finding" for definition.