Tools for Operational Auditing

Dallas Chapter – IIA
October, 2014
What Is Operational Auditing?
It’s Not This
It’s Not This
And It’s Sure Not This
Pick a Definition

Review processes and programs for “good controls”

A future-oriented, systemic, and independent evaluation of organizational activities

A technique used by an organization to evaluate its effectiveness, efficiency, and quality of its operations and report to the appropriate persons the results of the evaluation along with recommendations for improvement

Evaluation made of management’s performance and conformance with policies and budget

Highly focused assessment of organizational risk, capabilities, and performance

Audit of unit activities, systems, and controls within an enterprise to reach economic, efficiency, effectiveness or other objectives
Operational Auditing Defined

A systematic assessment to appraise the effectiveness and efficiency of a division, activity, or operation in its ability to meet organizational objectives and goals.
The accumulation of activities that takes place in each business process is what ultimately determines a company’s success.
Operational Audit Process
Operational Auditing Process

- Gain an understanding of the process
- Identify management’s objectives
- Identify risks to achievement of those objectives
- Identify controls (expected and actual) related to those risks
- Assess efficiency and effectiveness of the control design
- Assess the efficiency and effectiveness of critical controls
- Report findings and/or recommendations
Identifying Objectives

Objectives state *what* is trying to be accomplished, not how

**Strategic Objectives**

*What* must be done to assure the organization’s strategy is achieved

**Process Objectives**

*What* the process is trying to achieve (why it exists)
Broad objectives and sub-objectives may exist
Identifying Risks

What is a risk?

If the organization has the general objective “Act in an ethical manner”, is the following a risk?

“Act unethically”
The Definition of Risk

The possibility that an event will occur and adversely affect the achievement of objectives

COSO Internal Control – Integrated Framework 2013
Identifying Risks

- Risks are events or conditions which impact the achievement of objectives
- Risks are not the opposite of objectives
Identifying Controls

What is the Purpose of a Control?
A Three-Part Answer from COSO

Control: A policy or procedure that is part of internal control

Control Activity: An action established through policies and procedures that help ensure that management’s directives to mitigate risks to the achievement of objectives is carried out

Internal Control: A process…designed to provide reasonable assurance regarding the achievement of objectives…
Risk/Control Matrix

- Objective
- Risk(s)
- Control(s)
Process Analysis
Some Basics
Process Defined

Input: What enters the process
Transformation: What happens to the input
Output: What exits the process

Bounding the process
Start → End
Trigger Events

- What event starts the process?
- What actions must be taken to move the process forward?
- What events conclude the process?
Naming the Process

- Point of reference for evaluation
- Descriptive of trigger events
- Include boundaries
Measures of Success

- Success of individual process objectives
- Often overlooked
Information Gathering

- Starts immediately
- Continues throughout the process review
- Information rarely comes sequentially
- Like gathering pieces of a puzzle
## Process Profile Worksheet

<table>
<thead>
<tr>
<th>Process Name - Number</th>
<th>Process Owner</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

### Description

### Triggers
- Event beginning:
- Event ending process
- Additional events

### Input
- items and sources

### Output
- items and customers

<table>
<thead>
<tr>
<th>Process Units</th>
<th>Process Unit Owners</th>
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</table>

### Business Objective(s)

### Business Risks

<table>
<thead>
<tr>
<th>Key Controls</th>
<th>Measure of Success</th>
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Process Analysis
The Tools
Key Analysis Areas / Tools

- **How**
  - Process Mapping

- **Why**
  - Customer Mapping

- **Where**
  - Spaghetti Mapping

- **Who**
  - RACI Matrix
Process Mapping
My Process Mapping versus Your Process Mapping
Process Mapping

Storyboarding for business

Visual representation of process activities in simplified form

Provides a holistic view of the process

Focus on key objectives, efficiencies and effectiveness
What is Process Mapping?

A method for visualizing the understanding of how a process works

Benefits of Process Mapping

Holistic View
Employee’s Buy-in
Sense of Pride
Customer Driven
The Process of Process Mapping

- Process Identification
- Information Gathering
- Interview and Map Generation
- Analyzing the Data
- Presentation
Process Identification

- Bound the process; define where the process begins and ends
- Identify the major events that trigger the start and end of the process
- Name the major processes
- Develop process timelines
Information Gathering

- Process descriptions
- Unit owners
- Objectives
- Risks
- Measures of success

- Process definition – detailed
- Triggers
- Inputs/outputs
- Tasks
Information Gathering

Work Flow Survey

We need the following information in order to complete a workflow study of your department. We are asking you to provide us with a summary of your job duties, as well as information on how you complete the individual tasks involved in your job. Please feel free to make additional copies of this form if one page is not sufficient. Thank you for your assistance.

<table>
<thead>
<tr>
<th>Name:</th>
<th>Summary of Job Duties: (list general job duties here)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department:</td>
<td></td>
</tr>
<tr>
<td>Title:</td>
<td></td>
</tr>
<tr>
<td>Length of time in present position:</td>
<td></td>
</tr>
</tbody>
</table>

Please provide information concerning specific tasks you perform

<table>
<thead>
<tr>
<th>Task</th>
<th>Work received from? (Dept., mail, phone?)</th>
<th>What specifically do you do? (How do you process your work?)</th>
<th>How long does the process take? (estimate)</th>
<th>Where does your work go when you are finished? (to another dept., customer, agent?)</th>
</tr>
</thead>
<tbody>
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</tr>
</tbody>
</table>

Name: [name]

Department: [department]

Title: [title]

Length of time in present position: [length]
Map Generation

- Supplies
  - Sticky notes, felt-tip pens, and poster-sized sticky notes
- Separate sheet for each process
- People in columns – chronologically
- Time – top to bottom
- Small sticky notes for each action
- Action – verb/noun
- Basic symbols
- Cycle times
Symbols and Decision Trees

Use only basic symbols

- Process
- Decision
- Delay
- Rework
- Connectors
- Terminator

Simplify Decision Trees

- Yes/No
- All paths lead to one
Process Mapping
Making the Map

Hiring Manager
- Review Resumes/Apps
- Internal?
- Interview?
- Propose Schedule
- Develop Questions
- Document Reason
- Agree Schedule
- Approve Questions
- File
- External?
Process Mapping
The Map

Hiring Manager

3.1 Review resumes & applications
Min = 1 day
Max = 3 days

3.2 Document reason for not interviewing

HR

3.4 Agree Interview Schedule
Min = 1 day
Max = 3 days

3.6 Agree Interview Questions
Min = 1 day
Max = 2 days

3.7 External Applicant
C

Not accepted file

B

No

Yes

Internal Candidate

Candidate for Interview?

Yes

No
Interviewing and Mapping – Ground Rules

- Customer Buy-in
- Time
- Privacy
- Tone
- Listen
- Mapper and Recorder Roles
- Select the Right People
Spaghetti Mapping
Spaghetti Mapping

Originated as part of workflow analysis – but applied to processes

Quick method of visually capturing activity movement throughout the process

Focus on efficiency of movement from one activity to the next

Can quickly document “As Is” and “To Be” scenarios
Spaghetti Mapping Approach

Interview employees to determine the process flow.

Document the “As Is” process flow using a narrative and nodes to symbolize the movement of key items through the process.

Document the “To Be” process by eliminating some of the steps in the process which might create efficiencies.
Creating the As Is Spaghetti Map

- Determine scope of the process
- “Sketch” the process layout
- Write out steps in the process
- Indicate on map where steps occur
- Connect the dots
Spaghetti Mapping
“As Is”

1. Discuss Trip With Supervisor
2. Contact Travel Service
3. Book Transportation and Hotel
4. Complete Expense Report
5. Approve Expense Report
6. Forward Accounts Payable
7. Review Report
8. Return if Incomplete
9. Approve for Payment if Complete
10. Input Request
11. Fax Copy to Check Retriever
12. File Originals
13. Match the Faxed Report to Checks
14. If No Match Contact Sender
15. If Match Mail Check
16. Receive Check
17. Deposit Check
18. Pay Bill
Creating the To Be Spaghetti Map

- Same process used for the “as is” spaghetti map
- Intent is to show the improved process
- Fewer tasks and less crossing of lines
Spaghetti Mapping
“To Be”

1. Discuss Trip Details With Supervisor
2. Contact Travel Service
3. Book Transportation and Hotel
4. Copy of Final Transportation Booking Received by Supervisor
5. Pay All Expenses With Company Credit Card
6. Summary of Monthly Expenses to Employee and Supervisor
7. Company Credit Card Paid by Expense Clerk
RACI Matrix
RACI Matrix

Visual representation of individuals’ roles in a process

Specifies the responsibilities each person plays within the identified processes by showing activities and functional roles

Helps identify where ambiguities may exist related to accountability and responsibility.

Focus on “who” gets things done.
RACI Matrix – Process

- Develop decision/activity list – (tasks using verb/noun)
- Develop function lists (position assigned to an activity or sub-activity)
- Agree on function definitions
- Output in a responsibility chart
- Agree chart with key individuals
- Circulate
RACI Matrix – Responsibilities

“A” – Accountable – “The buck stops here” – position with yes/no authority. Only one A per function.

“R” – Responsible – “The doer” – Position working on the activity. Responsible for action/implementation. Degree of responsibility determined by individual with the “A”.

“C” – Consult – “In the loop” – Position involved prior to decisions or action - two-way communication.

“I” – Inform – “Keep in the picture” – Position that needs to know of the decision or action – informed after – incorporates one-way communication.
## RACI Matrix

### The Chart

<table>
<thead>
<tr>
<th>Business Processes</th>
<th>Functional Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R</td>
</tr>
<tr>
<td>Decisions / Functions / Activities</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
</tbody>
</table>

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RACI Matrix
Vertical Analysis

<table>
<thead>
<tr>
<th>Vertical Analysis</th>
<th>Functional Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R</td>
</tr>
<tr>
<td>A</td>
<td>R</td>
</tr>
<tr>
<td>C</td>
<td>R</td>
</tr>
<tr>
<td>C</td>
<td>A</td>
</tr>
<tr>
<td>I</td>
<td>R</td>
</tr>
<tr>
<td></td>
<td>C</td>
</tr>
</tbody>
</table>

Lots of R’s – does the individual have too much work
No empty spaces – does the individual need to be involved in this many activities. Are they a gatekeeper?
No R’s or A’s – should the role be eliminated?
Too many A’s – is there proper segregation of duties? Is this a bottleneck?
Qualification - Does the type or degree of participation fit the qualifications of the role?
RACI Matrix
Horizontal Analysis

<table>
<thead>
<tr>
<th></th>
<th>R</th>
<th>A</th>
<th>C</th>
<th>I</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>R</td>
<td>C</td>
<td>C</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td>C</td>
<td>C</td>
<td>R</td>
<td>C</td>
<td>C</td>
<td>R</td>
</tr>
</tbody>
</table>

Horizontal analysis

No R’s – is the job getting done?
Too many R’s – is this a sigh of “over the wall” activities? Just get it off my desk?
No A’s – Why note? Who is accountable
To many A’s – Is there confusion? Who is doing what?
Too few A’s and R’s – Is the process slowing down while activity is performed on an “ad hoc” basis. Are procedures outdated and need to be streamlined.
Lots of C’s – are they necessary
Lots of I’s – should this be standard or only on an exception basis.
All boxes full – Too many people involved.
Customer Mapping
What the Customer Wants

“There is only one valid definition of a business purpose: to create a customer”

“A business is defined by the ‘want’ the customer satisfies when she buys a product or service”

– Peter Drucker

“Want” is a function of the jobs they need to get done

“When customers become aware of a job they need to get done in their lives, they look around for a product or service they can ‘hire’ to get the job done”

– Clayton Christensen

Carpenters hire saws, doctors hire stethoscopes, people hire cellphones

An outcome is “a metric that customers use to measure how well they are getting a job done”
Customer Mapping

External view of the process based on the job the customer is trying to get done

Focus on actions the customer must take to accomplish the job the company performs for the customer

Can identify inefficiencies that directly affect the customer.
Customer Mapping Vs. Process Mapping

Move focus more directly from company to the customer

Moving beyond process improvement to improved customer satisfaction

Focus on steps the customer must take

Focus on the job the customer is trying to get done, not on what the company is currently doing
Customer Mapping
Specific Tools & Techniques

Customer Mapping focuses on the job the customer is hiring the company to do, the tasks the customer must do to accomplish the job, and the customer’s measures of success.

- Define the job
- Define the tasks the customer must perform (verb/noun)
- Define customer inputs and outputs
- Define the customers measures of success (minimize/maximize)
- Rank the measures of success
- Compare results to the measures
- Look in depth (Process Maps) for areas that do not measure up
Define the Job the Customer Wants Done

When the business focuses on the jobs the customer is trying to get done, they can develop innovative solutions to satisfy those jobs.

Asking customers what they want is not necessarily going to provide you with a good definition of the job they want to do.

Focus on “what”, not “how”
Identifying Key Tasks and Actions

- Focus on actions customer must take
- “Moments of Required Action”
- First task, next task, etc.
- Verb/Noun
Actions, Inputs, and Outputs

- Specific actions the customer must take to accomplish task
- What must the customer bring to the table
- What does the customer expect at the end
Measures of Success

- How does the customer measure success for each action?
- Surveys, focus groups, observation, complaints, common sense
- Continue to focus on “what”, not “how”
- Simple terms – “minimize”, “increase”, “reduce”, etc.
- Rank the measures of success
- Focus on processes with the highest ranking
- Also consider current success rates
## Customer Profile Worksheet

### Job Description:

<table>
<thead>
<tr>
<th>Trigger:</th>
<th>Functional Job:</th>
<th>Personal Job:</th>
<th>Social Job:</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Task</th>
<th>Actions</th>
<th>Input</th>
<th>Output</th>
<th>Measure of Success</th>
<th>Ranking</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>2.</td>
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</tbody>
</table>
The Customer Map

- Many of the same concepts as the Process Map
- Process starts at the upper left and moves to the lower right
- Verb/Noun format
- Time becomes an more important element
- Customers’ tasks across the top
- Customers’ actions under the tasks
Customer Mapping – Example

Determine contact options
- Check all sources
- Company documents
- Agent
- Media search

Choose contact source
- HP
- Farmers Web Reporting

Locate Contact Information
- Locate HP phone #
- Search web, Farmers or Ins Card or Agr?

Make Contact
- Speak with CSA
- Access web, enter information

Help Point
- Obtain Initial Report of Loss

Agent
- CSA Contact Customer
- 2 hrs

Delays can occur if agent not available, if agent has to return call, if calling after hours.

If Agent calls w/client on line - #2 applies, if e-report or calls in w/o client #2 applies and there is further delay.
Wrap Up

- What we mean by process
- What we mean by process analysis
- Process Mapping
- Spaghetti Mapping
- RACI Matrix
- Customer Mapping

Ultimately – these are just a set of tools
QUESTIONS?
THANK YOU!

Feel free to contact me at: mjacka@fpacts.com

And you can follow on Twitter @figre