CM Contemporary Issues-Rutgers Symposium

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Continuous Monitoring

- Time to move forward!
- Time for a “Revolution”
Continuous Monitoring Macro

- Automation – computers, new communications and surveillance devices leads to expansion of monitoring
- There is an ever expanding “Orwellian” interest in monitoring
- Pace may be an issue BUT automated monitoring is **expanding** in Business; Government; Medical Practices
Apollo 13 – CM is everywhere
Monitoring is everywhere

Federal Express created New Standard

- Lost cell Phone – letter To NY Times
- Retail
Retail – Monitoring Weight
Government Monitoring

- Government in addition to space travel
  - National Security
    - Terrorist – airport screening
  - Red Lights in Newark – cameras vs. police
  - compliance – tax W-2; 1099; property tax;
  - motor vehicle monitoring;
  - EZPass – expectation – no duplicate charges
Medical Monitoring

- Search CM on Google – Glucose monitoring high on list
- ER – CM of patients vital signs – using probes and sensors providing automated CM of Heart, oxygen level, blood pressure, temperature
- But one in five claims are wrongly handled – without monitoring

Per MSNBC.COM – article CM Solutions Can Save Your Healthcare Business Money
CM Example – Medical Claims
Per Forbes Magazine 5-10-10

- Medicare “questionable claims” 10% - $47 Billion of the $480 Billion processed
- Private Insurers health claims, computer systems checks ie: CM – reduce rate on $600 Billion results in fraud rate 1.5%
- Recommendation – US Gov should adopt the private sectors “pre claim adjudication processes” ie CM
Monitoring Macro - Business

Business Monitoring:
- To some degree started with IT Auditing

Extensive IT Security Monitoring
- IT people use automation!!

Finance – A/P & telecom = cash recoveries

Expanding into operations – this needs to move faster - *my theme #1 today*
Monitoring Macro - Assurance

- CM adds value to IC system – COSO Monitoring – good step, not far enough
- Business CM has Financial & IC Focus –
  - Most common terms CCM, CCM-T, CA
- Start higher - CM – is more pervasive
  - Need for more clarity of CM objectives, benefits and definitions – get it into core operations
OVERVIEW OF CONTINUOUS MONITORING

Society

Government

National Security Monitoring

Compliance Monitoring (IRS)

Medical

Business Monitoring

Operations

IT

Finance

HR

CM - Security Info Integrity

CCM-T & recs

CCM-S of duties

CCM-T

CA - Internal Audit / GRC
Control Community

- Helped launch IT security – IT monitoring
- Early adopter real time CA-CM
- We need define the new Control Community Role
- Finance & audit – to lead & educate
- CM in Operations in addition to Financial Controls Focus; add information integrity & efficiency focus
### Continuous Auditing Performed by Internal Audit

- Gain audit evidence more effectively and efficiently
- React more timely to business risks
- Leverage technology to perform more efficient internal audits
- Focus audits more specifically
- Help monitor compliance with policies, procedures, and regulations

### Continuous Monitoring Responsibility of Management

- Improve governance – aligning business/compliance risk to internal controls and remediation
- Improve transparency and react more timely to make better day-to-day decisions
- Strive to reduce cost of controls and cost of testing/monitoring
- Leverage technology to create efficiencies and opportunities for performance improvements

From Continuous Audit (CA) vs. Continuous Monitoring (CM) by Miklos

From "CA/CM as Preventive Care against Fraud" by James R. Littley and Andrew M. Costello, KPMG
EDPACS – IA’S Role in CM

- April 2010; elected as #16 best in last decade
- **Continuous Monitoring (CM)** is a business operational issue swirling around in the auditing and accounting professions
- CA is very valuable, as is CCM and CCM-T and CCM-SD **But built in CM is more important to your organization**
- **Leverage – the assurance function!!!!**
FCPA – SOX and IC Scope

- FCPA at Phelps Dodge circa 1980
  - IC reviews with operation improvement focus
- SOX – IC over FR – very limited
- Ignored the opportunity to change the backwardly looking audit model and expand integrated automated controls
- Result – good focus on IC but cost of compliance doubled
SOX – propelling CM

SOX doubled the cost of controls/audits –
with a focus on FS accuracy
– not integrated IC using technology!

Question – can we use this environment to add efficiency and change the backwardly looking control/audit model?

Yes there is a large interest in lowering cost; improving Info Integrity - IC verifications using automation to expand coverage at lower costs
COSO = Internal Control

- Recognized as the major framework for evaluating internal control
- **Operations** - opportunity to build in controls and other verifications; expand coverage; find errors early: recover $$$
COSO Monitoring – my view

- directionally great – suggesting greater use of monitoring to reduce cost of year end and ongoing internal audits (SOX)
- could have been more specific about the use of computers (automation) to expand monitoring
- comments suggesting references and examples of how computers can be used to monitor were not included.
leading companies continue to get more 404 done with fewer hours
Why? Automation is an important part of the explanation - but only 22% automated

Compliance Week article - “404 Study Shows Little Automation Yet”
Assurance & Control Community

- Summary: excellent progress – expanding use of near real time – automated monitoring
- Redefine the Control Community Role
  - Finance & audit – to lead & educate and recommend CM applications
- New focus expand CM in Operations in addition to Assurance - Financial Focus
Senior management focus now !!!!
- Recession - puts pressure on costs – even audit and recently IT

Need add efficiency - Audit-Control Model

My View - BIG opportunity for CM-CCM

Gartner – CCM-T can produce quick ROI

But – firms/CFOs not focused on CM - we need to build the business case
Case Study: Assurance meets cash flow

- When we ship – we bill – collect cash
- Supply Chain has money in it
- Aigner: no locator system – slow picking process and full physical stop Shipping
- Goal use automated locator, pick sequencing and CM of inventory
- speed throughput and cash flow
Benefits

- Cut staff in DC by 30 percent
- Improved shipping performance – faster shipping **better cash flow**
- Increased capacity of throughput
- Eliminated Physical Inventory (which actually introduced errors)
- I got promoted!!!!more money!!!!
Why is CM imp so slow?

- Need for a champion – who initiates the process
- Audit, Finance = aware but in review mode; no budget; no P&L responsibility
- Operations – less aware – hence the opportunity for IA
- Issue of audit independence –
New Generation GRC - Control Community

- Recommend CM to operations
- Not just a control issue also information integrity, accuracy, reputation
- EDPACS Article- **Continuous Monitoring (CM)** is a business operational issue swirling around in the auditing and accounting professions.
New - GRC/Control Community

- Get in the flow with management
  - Innovate/Reinvent - Respond
- Large investment in IT
- Leverage this investment
- To Do - Lower cost – higher imagination
  - Recommend Continuous Monitoring into Operations Core Systems
  - Not just a control issue also information integrity, accuracy, reputation
CM can produce quick ROI
BIG News - New companies and products available and now; and more features coming every day
They i.e.: PhDs, software engineers; build analytics, “secret sauce” – to address emerging needs
Oversight – Yahoo journal entries
New Generations – CA Software

- Infogix; Oversight; Approva; SAP Versa
- Yet some companies building their own
- My view use existing software to build CM in to systems
  - ie: Oversight Systems quote:
    - No business process works perfectly. The sooner an error is identified and corrected the better. Oversight's advanced analytics inspect each step in every transaction in a financial business process to identify fraud, misuse and error.
New – continuous monitoring and auditing solutions

- built-in report and dashboard features that present continuous risk reports with color-coded risk ratings (i.e., red, yellow, and green) for all key control objectives.
- threshold-oriented reports automatically alert audit professionals and or BUSINESS MANAGERS

Why reinvent the wheel !!!
Barriers to CM

- Need a sponsor
  - Build into audit recommendations
- Cost – need for investment vs Vision
- Lack of regulatory – requirements; PCAOB wants coverage – efficiency not mandated!!
Macro Thoughts

Business run on cash – must be efficient
Focus cash recoveries; Lower expenses
Management & Audit Committees will get it

Problem - Need for SEC, PCAOB & COSO
to pay attention to CM - CCM & CA
Problem – IA’s get it BUT need to get the CFO to understand and buy in
Regulators: Macro Thoughts

Problem - Need for SEC, PCAOB & COSO to pay attention to CM - CCM & CA

- Who regulates Internal Control?
- Who should regulate CM?

Problems:

- busy – financial crisis
- accounting and assurance focused
- Little real management experience
Making assurance timely

The Auditing and Assurance Standards Board (AuASB) has applauded the Institute of Chartered Accountants’s latest research on continuous assurance.

Head of the board Merran Kelsall said the publication Continuous Assurance for the Now Economy would throw out challenges to standard setters and she welcomed the opportunity to discuss the concept.

Unlike traditional financial reports where auditors — those providing the assurance — provide an opinion based on historical financial data, continuous assurance is based on real-time data, both financial and non-financial.

Still in its infancy and yet to be adopted by any major financial market, continuous assurance is not governed by any auditing standards. The institute’s paper not only wants to raise the debate on the continuous assurance process but also the standards required and the appropriate education for those implementing the process, which Lee White, the general manager of leadership and quality at the institute, said was inevitable.

“An investor may want to have non-financial information and the driver is how to get the assurance over this,” Ms Kelsall said. “Continuous assurance is a challenge for auditors to be adaptive and dynamic.”

While the digital revolution has transformed many businesses, the way in which they are audited has experienced no equivalent evolution.

External auditors tended to examine an organisation once a year and listed companies report only quarterly in many parts of the world and half yearly here, even through the technology exists for both reporting and auditing in a timelier fashion.

“The dramatic collapse of leading banks around the world makes it all the more important that external and internal auditors take full advantage of modern technology to provide shareholders and managers with the most timely and relevant assurance,” the institute said.

Mark Fenton-Jones
Published: “Continuous Assurance for the Now Economy” Rutgers work!!

Proposed continuous assurance vs. point in time audit report –

Based on “real time” data both financial and non-financial

Still in “its infancy” CA not governed by any audit standard!!!!
Closing Thoughts

- Private Equity (PE) firms are investing in it – and good CM-CCM products in pipeline
- This is not a public accounting issue –
  - They didn’t propose automating G/L
- Business Management will adopt in due course & Gov for public interest
- Need **awareness** to get operations to invest in CM for efficiency and real time reporting integrity/controls checking