

LINK 2017

Office of University Audits

Darla Hill

Director, CPA, CIA, CFE

<https://www.audits.uillinois.edu/>

UNIVERSITY OF ILLINOIS SYSTEM

The logo for the University of Illinois System, consisting of three horizontal bars in orange, red, and black.

Agenda

- **Internal Control Concepts**
- **Fraud Scenarios and Internal Control Impacts**
- **Internal Audits**
- **Tips for Success**

Internal Control is a Process...

Effectiveness and efficiency of operations

Reliability of reporting

Compliance with laws and regulations

✓ It's not static

✓ It's effected by people

✓ Provides only reasonable assurance

Where are Internal Controls Important?

Financial

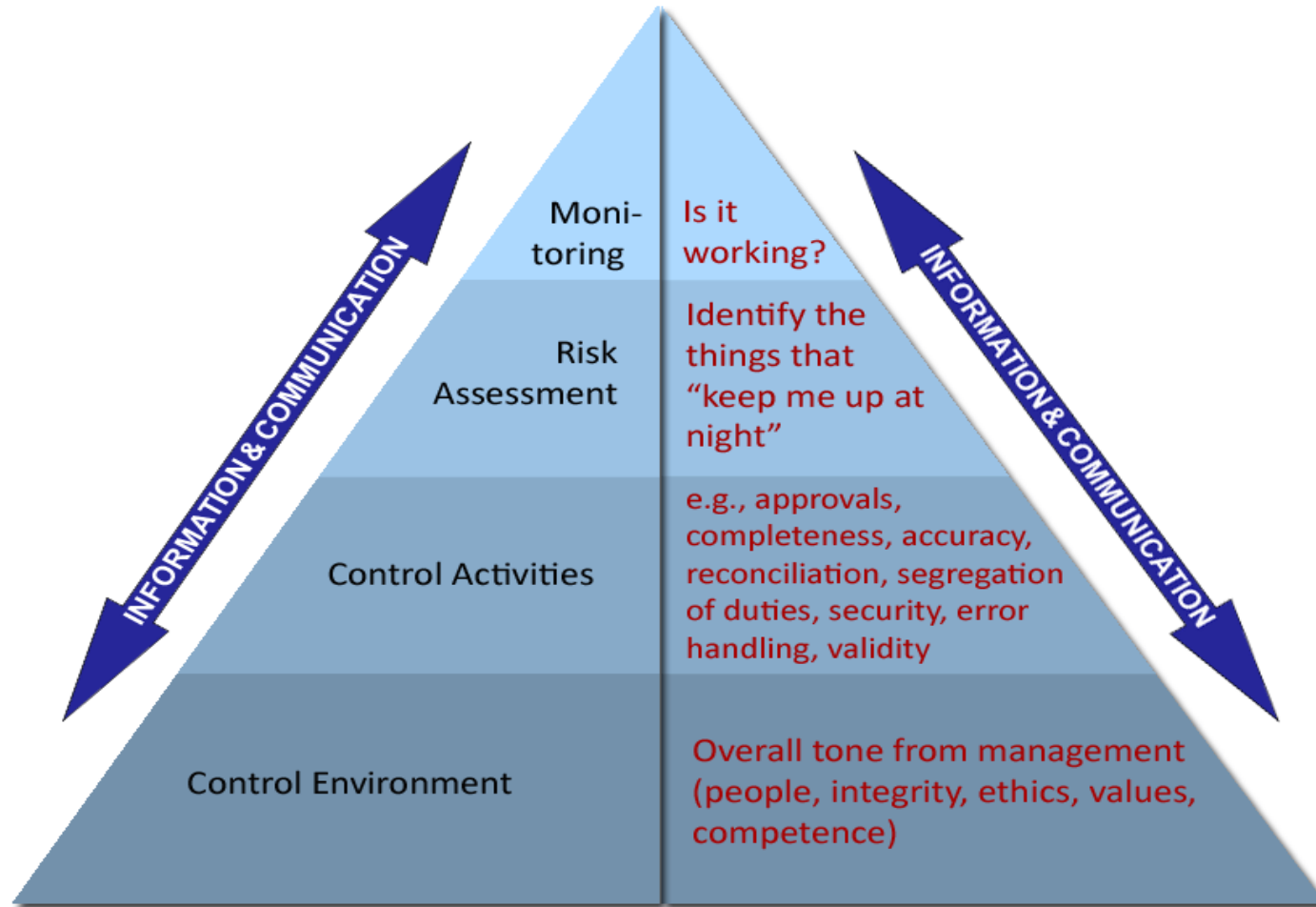
Operational

Governance

So...basically everywhere!



Components of Internal Controls



Control Environment

What is it?....What can you do to change it?....



APPROPRIATE
RESPONSES

The world is changed by
your example,
not your opinion.

Paulo Coelho



There are no mistakes in life, just
learning opportunities.

Robert Kiyosaki

Control Activities

Directive

Preventive

Detective

Corrective



Types of Internal Controls

Preventive Controls

- Security Access
- Segregation of duties
- Physical controls over assets
- Authorized signers
- University payables review and approval of travel vouchers prior to processing
- Reminders of policies, procedures, and expectations

Corrective Controls

- Error communication and reporting
- Documentation systems or processes
- Improvement initiatives
- Discipline actions
- Deficit reduction plans

Detective Controls

- Banner account reconciliations
- Management review of reconciliations
- Physical inventories
- P-Card logging, reconciliation, and approval
- Review of budget to actual
- Year to year expenditure trending

Directive Controls

- University of Illinois Statutes
- OBFS policies and procedures
- Campus Administrative Manual
- College policies
- Unit procedures or communications

What is Risk Assessment

Identification of risk factors

- External factors (e.g., new systems, economic changes, rules and regulations)
- Internal factors (e.g., new personnel, low morale, short staffing)

Risk Analysis

- Estimating the significance of the risk (e.g., dollars, reputation)
- Estimating the likelihood of occurrence

Assessing options for controls

- Differing types of controls (e.g., preventive, detective)
- Resource availability
- Cost

Limits of Internal Controls

Judgement

Breakdowns

Management Override

Collusion

Cost vs. Benefit

Most Common Control Weaknesses

- Segregation of duties
- Reconciliation not complete or not performed by competent and knowledgeable placed staff
- Adequate documentation supporting transactions and/or decisions
- Compliance with policies or procedures

Segregation Examples

#1 Magazine Sales

- Administrative Assistant – Receives the cash and counts it, runs a tape, provides cash and tape to the Accountant I
- Accountant I – prepares the deposit slip compares to the tape, takes the deposit slip and cash to cashiering, provides the deposit slip to Business manager
- Business manager reconciles the Banner statement to the deposit slip

#2 Map Sales

- Administrative Assistant – Records the sale on the register, receives cash, creates a deposit, takes the deposit to Cashiering, provides the deposit slip to the Accountant I, provides a report to the operations manager of cash received
- Accountant I – Reconciles the deposit slip to Banner
- Operations manager – reviews the report of cash to operations data

Reconciliations and Financial Review

Revenue Completeness

- Against source data or information
- According to contractual expectations
- Comparison to expectations
- Tie to rate evaluations

Financial Statement Review

- Completeness
- Comparison to expectations
- Investigation of variances from expectations

Supporting Documentation

Auditors

OBFS

UPAY

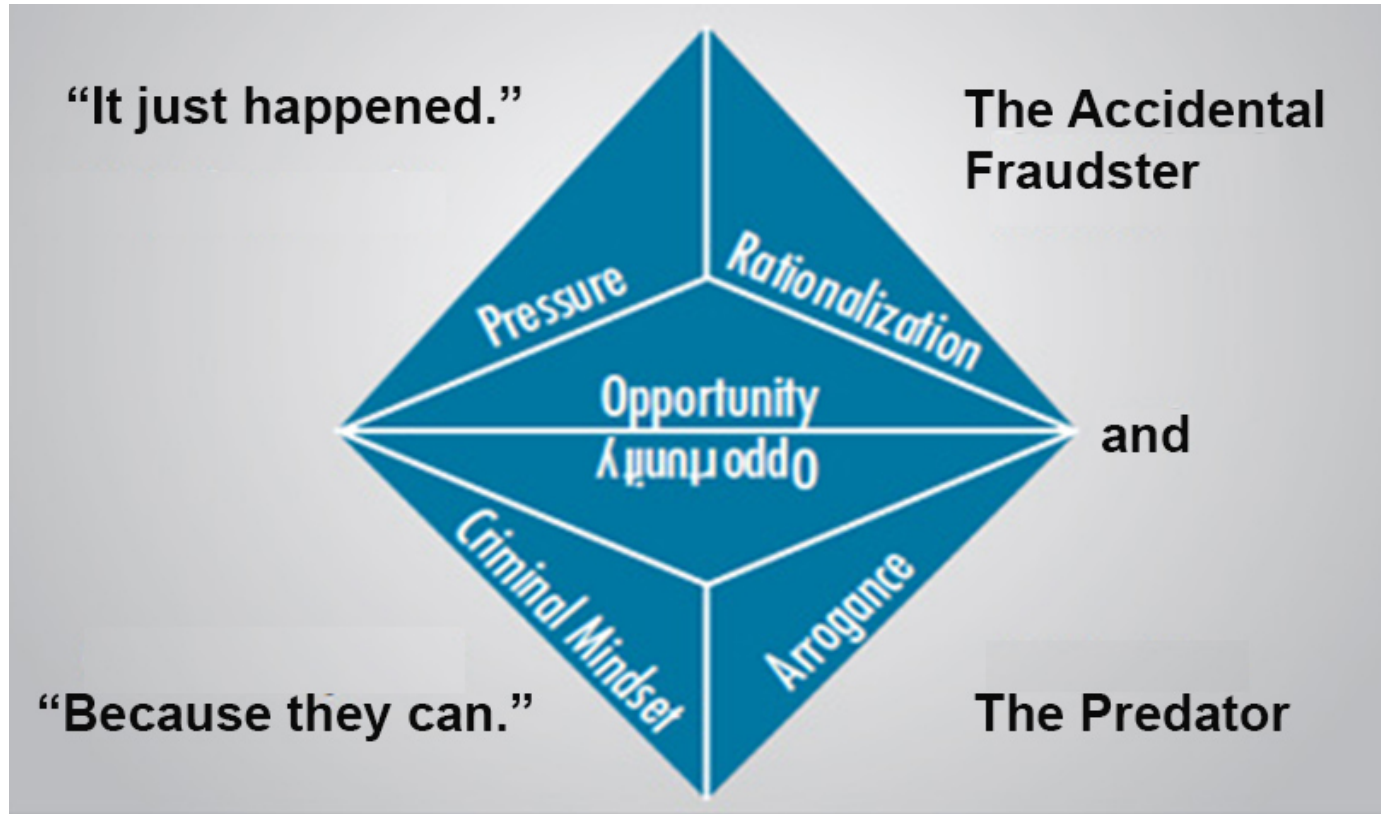
SPA

* *Who* (attendees, approvals) * *What* (conference agendas, itineraries, receipts, alcohol) * *When* (start to finish, how long ago, GC81) * *Where* (how did you get there, University premises, receipts) * *Why* (business purpose, benefit to the project, students vs. research) * *Attendees* (students, employees, guests, family members)

Most Common Fraud Areas

- Expenditure reimbursements (arranged travel, TEM)
- P-Card/T-Card
- Equipment
- Cash (incoming, petty cash and change funds, money in safes)
- Payroll (time, overtime, vacation and sick leave)

Fraud Diamond



A Case of Collusion

- Supervisor and a staff
- Neither working full time, but they covered for each other
- Goods for resale or use in production was never inventoried, process wasn't segregated (physical, ordering, receiving), was not accurate
- No segregation in purchasing/receiving processes
- Productivity in terms of widgets produced to hours worked was not reviewed
- Frequent complaints, not fully investigated

Tips:

- ✓ Segregation of duties
- ✓ Annual review of productivity to industry, history, and reasonableness
- ✓ Reconciliation
- ✓ Independent inventory
- ✓ Take complaints seriously

The Supply Chain

- Poor record keeping - no records of inventory balances, ins, and outs maintained
- Segregation of duties in the “official” purchase of toner existed, but not in the actual person who put the order in to the business office, received the goods, controlled the inventory, and made the replacements
- Volume of purchasing increased every year
- Use of a common departmental account where activity was more easily buried

Tips:

- ✓ Segregation of duties – substance over form
- ✓ Reconciliation process - require “owner” verification of need be documented and supplied as part of purchase documentation
- ✓ Physical inventory
- ✓ Analytical review of purchases and usage

Where are the Assets

- Director of a unit
- Negotiated and controlled asset trades and provided excel support for trades
- Overrode controls regarding physical asset verification by the person controlling FABweb
- Designed a system where two individuals had roles over assets but they never reconciled and each had a piece of the information
- Included new and existing assets
- Negotiate and controlled all sponsorships
- Double dipped with car pool (mileage and University car)

Tips:

- ✓ Segregation of duties
- ✓ Trades should be supported by outside, third party, documentation
- ✓ Reconciliation should be knowledgeable
- ✓ The independent physical asset verification should be used to update FABweb
- ✓ Sponsorships should all have formal contracts and be appropriately routed for signature/filing

The Small Shop Syndrome

- Employee was the Assistant to the Head unit with small number of staff
- Department authorization for transactions through other University store operations were forged
- P-Card transactions were reconciled with a receipt but the appropriateness of the transaction was not questioned
- Employee was responsible for purchasing, maintaining the financial records, property accounting contact and reviewer, and reporting to the Head
- Red flags were observed and personnel performance issues were noted

Tips:

- ✓ Segregation of duties
- ✓ Reconciliation should be meaningful
- ✓ Override of controls if supervisory position starts performing detailed functions (e.g., purchasing)
- ✓ Observed red flags should be reported
- ✓ Monitor transactions from other internal store operations

My Team

Carla Jones, CPA, Ed. M.

Teri Travis, CPA, CIA

Kevin Jones, CPA, CIA

Nerissa Andres, CIA

Jeremy Henderson, CPA

Jessica Hoppe, CPA, CIA

What Should You Do?

Understand Policy

OBFS Section 1.6.2

- Your responsibilities
- Duty to cooperate
- Protection and complaints of reprisal

Contact authorities

- University Ethics
- Office of University Audits
- University Police
- University Counsel

We work together

Services Provided

Internal Control – 39%
Information Technology – 11%
Compliance – 20%
Operational – 4%
Investigative – 14%
Continuous Auditing – 7%
Consulting Services – 5%

Audit Process

Planning/Risk Assessment/Scope

Interviews

Testing

Communication/Discussion of concerns

Reporting

Follow-up

How do you help yourself?

- Ask lots of questions
- Never accept “that’s the way we’ve always done it”
- You’re never too busy for training
- Join groups for networking
- Find a mentor
- Encourage staff to question the status quo