Session Objectives

• Refresher on Internal Audit
• Be able to assess risks in your department
• Be able to apply internal control concepts to mitigate risks and accomplish your objectives
• Clearly understand ethical values and conduct expected of MSU staff
Organization Chart

Our Mission

“To assist University units in effectively discharging their duties while ensuring proper control over University assets.”
Internal Audit Charter

- Establishes our purpose, authority, and scope
- Identifies the importance of independence
- Provides for full access to records
- Prohibits making operational decisions

Risks

How do we decide on the Audit Plan?

- Risk Based
  - Complexity of unit/process
  - Emerging issues or event occurrence
  - Processes and units to validate significant internal controls

Not limited to Financial type Audits

Annual Audit Plan

Specific requests
Internal Audit Engagement Types

- Limited review
- Audit
- Fraud Investigation
- Consulting assignment
- Operational Audits
- Other Special investigations or projects

Representative Risks

- Noncompliance with government and private funding requirements
- Conflict of Interest/commitment
- Financial controls breakdowns
- Reputation damage
- Athletic programs compliance
- State and federal budget constraints (budget & position cuts)
- Grant and research funding requirements
Representative Risks

- Information technology unauthorized access and use
- Environmental, health and safety issues
- Animal and human subjects research
- Disaster recovery/business continuity
- Privacy regulation compliance; HIPPA, FERPA, GLBA, etc.
- Medical compliance

SEE SOMETHING

SAY SOMETHING!!!!!
Risk Assessment is an ongoing process

Identify

Manage ↔ Assess

How do we identify risks?

• Know your risks.
• For each objective, ask yourself:
  – What could go wrong?
  – What assets do we need to protect?
  – How could someone steal from us?
  – What is our greatest legal exposure?
  – What else?
Assess Risks

- **Likelihood** – probability of occurrence
- **Impact** – effect on MSU/your unit
  - Loss of resources
  - Loss of public trust
  - Violation of policies, laws, regulations
  - Bad publicity
  - Decreased enrollment
  - What else?

Manage Risks

- Avoidance
- Acceptance and sharing (insurance)
- Mitigate with controls
Question

What are the three major RISKS facing:

• Your college
• Your department
• The University
Why are controls important to MSU?

2014 Report to the Nation Introduction

Figure 1: Geographical Location of Victim Organizations

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Cases</th>
<th>Percent of Cases</th>
<th>Median Loss (in U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>646</td>
<td>48.0%</td>
<td>$100,000</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>173</td>
<td>12.0%</td>
<td>$120,000</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>129</td>
<td>9.1%</td>
<td>$140,000</td>
</tr>
<tr>
<td>Western Europe</td>
<td>98</td>
<td>7.2%</td>
<td>$200,000</td>
</tr>
<tr>
<td>Eastern Europe and Western/Central Asia</td>
<td>78</td>
<td>5.6%</td>
<td>$300,000</td>
</tr>
<tr>
<td>Canada</td>
<td>58</td>
<td>4.3%</td>
<td>$500,000</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>57</td>
<td>4.2%</td>
<td>$200,000</td>
</tr>
<tr>
<td>Southern Asia</td>
<td>55</td>
<td>4.1%</td>
<td>$50,000</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>53</td>
<td>3.9%</td>
<td>$240,000</td>
</tr>
</tbody>
</table>
Fraud Statistics

Figure 39: Primary Internal Control Weakness Observed by CFE

MSU Fraud and Recovery
Control Environment

TONE AT THE TOP

– Integrity, ethical values, and behavior of management
– Management’s control consciousness
– Management’s commitment to competence

It’s the way you do Business

– Organization structure
– Assignment of authority and responsibility
– Policies and practices

iclicker Question #1

• Do you feel your unit has an ethical tone at the top?
  1. Yes
  2. No
Questions

• Which attributes of a Fiscal Officer can be useful in exhibiting a strong “Tone at the top”?
• When should you be demonstrating a strong “Tone at the top”?
Methods of Reporting Misconduct

- MSU Hotline – call center/web reporting
- Direct contact with Internal Audit/ MSU PD/HR/

Key links:
- IA website: [www.msu.edu/~intaudit](http://www.msu.edu/~intaudit)
- Misconduct guidelines: [http://misconduct.msu.edu/](http://misconduct.msu.edu/)
Misconduct Hotline

If you have a concern about misconduct, don't keep it to yourself. Discuss it with a supervisor or contact the Misconduct Hotline.

Welcome to Michigan State University's Misconduct Hotline

Michigan State University has implemented a telephone and web reporting Hotline to help maintain adherence to ethical practices. The purpose of the Hotline is to provide an anonymous method to report known or suspected misconduct for Michigan State University-related activities, conflicts of interest, employment, medical/health, research, safety, athletics, discrimination, harassment, pricing-related, or any other area of legal, policy, or ethical concern not specifically listed.

The expanded Michigan Hotline does not replace the University Reporting Protocols requiring child abuse, sexual assault or child pornography. While such issues may be referred to the Misconduct Hotline, employees are also required to follow the reporting protocol. The reporting protocols are available at the Human Resources website (http://www.msu.edu/human_resources/reporting/protocol/).

The University prohibits retaliation against any employee who makes a report in good faith of known or suspected misconduct.

Areas to Report

You can report misconduct in the areas listed below or any other compliance issues that do not fit into an existing area.

- Alcohol
- Conflict of Interest
- Discrimination and Harassment
- Employment
2013 National Business Ethics Survey

- Published by the Ethics Resource Center
- National benchmark on business Ethics
- Last report issued 2011
- 2013 data based on 6,420 employees in for profit sector

Shift in Key Measures (2011-2013)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pressure</td>
<td>13%</td>
<td>9%</td>
</tr>
<tr>
<td>Misconduct</td>
<td>45%</td>
<td>41%</td>
</tr>
<tr>
<td>Reported</td>
<td>65%</td>
<td>63%</td>
</tr>
<tr>
<td>Retaliation</td>
<td>22%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Significant improvement since 2011
No significant improvement since 2011
What is the Right Thing to do?

Ask yourself three relatively simple questions:
• Is it legal and in compliance with MSU policy?
• Is it fair, honest, responsible, and respectful of individuals
• Would it pass the newspaper test or the mom test?

If the answer to all three questions is yes, you’re probably OK.

But what if I still have questions?

Ethical Dilemmas

An ethical dilemma means you’re not sure what the right thing to do is in a given situation

Let’s look at a few situations...

Get the iclickers ready............
Ethical Dilemma #1

A company that does a lot of business with your unit/department offers you a part-time job working on the weekends.

What would you do?

1. Take it, it’s a lot of $’s for a few hours work, and you have kids’ college tuition to pay.
2. Refuse it, it could put you in a conflict of interest position
3. Discuss it with your supervisor and HR before you decide

Ethical Dilemma #2

The company that does all of your department's shredding sends you a $100 gift certificate for being such a good customer.

What would you do?

1. Take it, it’s only a small token and that’s the way businesses do things
2. Send it back, explaining that University personnel aren’t allowed to accept gifts
3. Share it with others in the department by taking them all out to lunch
Ethical Dilemma #3

A consulting firm that your department has engaged services with in the past sends a fruit basket to you at the office at Christmas.

What would you do?
1. Take it, it’s only a small token and that’s the way businesses do things
2. Send it back, explaining that university personnel aren’t allowed to accept gifts
3. Share it with others in the department

Ethical Dilemma #4

Your administrative assistant wants to take the afternoon off to attend his child’s graduation ceremony, but he has no vacation hours left. He says he will make it up the following week.

What would you do?
1. Let him take the time off and make it up the following week
2. Let him take the time off and don’t worry about making it up, it’s only a few hours
3. Insist that if he takes the time off it must be without pay
Ethical Dilemma #5

Your Dean informs you that she wants the school to begin selling a selection of “gift/logo” items via the web. She tells you she wants you to deposit the revenues received by the sales into the department’s discretionary MSU account so “we can have funds to pay for all those little “extras” that the University won’t allow.”

What would you do?

What would you do?

1. Do as the Dean says. This doesn’t appear to be an issue
2. Tell the Dean that you think this is an inappropriate use of the funds
3. Ask the Dean to allow you to consult with other university personnel to determine whether this is appropriate before proceeding
Ethical Dilemma #6

You are made aware that someone in your organization has a “side” business selling cosmetic products. This person is soliciting orders, delivering products, and collecting money from other department and university personnel during normal working hours.

What would you do?

1. Ignore it. She’s the Dean’s admin, and besides this type of thing happens everywhere.
2. Let the Dean know about the situation, explaining that you feel this is a “conflict of commitment” issue in violation of policy.
3. Report it on the misconduct hotline.

Ethical Dilemma #7

You are in charge of a meeting for managers where lunch needs to be provided. Your neighbor, Jan, has just started a catering service so she offers to do it at cost to gain exposure. Would you hire Jan to provide the food?

1. Yes - it will be the cheapest option.
2. Discuss with Purchasing and disclose the conflict of interest.
3. No – conflict of interest.
Ethical Dilemma #8

University policy prohibits an employee being under the direct supervision of a “relative.” Your best friend’s son has applied for a job that would report directly to you and his resume is the best out of all the applicants. You know from years of personal experience that he would be a perfect fit for this job and be an asset for the department. No one in your department knows that he is your best friend’s son so you could hire him without your impaired objectivity being discovered. Should you hire him?

Would you hire him?
1. Yes as he is the most qualified for the job
2. Discuss with Human Resources and disclose conflict
3. No it is clearly a conflict of interest for him to work in your department
Ethical Dilemma #9

You witnessed a high ranking University employee breaking a University policy but their behavior was not illegal. You know that if you report this violation it will bring negative publicity to the University.

What would you do?

1. Nothing. This doesn’t appear to be an issue
2. Call the hotline
3. Consult with appropriate University personnel to determine whether there is an issue
Potential Conflicts

“Conflict of Interest”

Occurs in:
• Employment
• Outside Companies
• Other

“Conflict of Commitment”

Ethical Conduct – Who should you Contact?

• Supervisor
• Human Resources
• Purchasing
• Accounting
• Internal Audit/Misconduct Hotline
• University Legal Counsel
• Police
Session Summary

• Internal Audit overview
• Risk assessment process
• Applying internal control concepts to mitigate risks and accomplish your objectives
• Ethical values

Questions
Thank You!

Jana Dean
Finance & Operations
Audit Manager
Email: deanjana@msu.edu

Tom Luccock
Director
Email: tluccock@msu.edu

Internal Audit Main Phone:
(517) 355-5030

MSU Misconduct Hotline:
1-800-763-0764

Please Visit Our Website For More Information:
www.msu.edu/~intaudit

Informational Slides
Fraud Indicators

- Incentives / Pressures
- Opportunities
- Attitudes / Rationalization

The Fraud Triangle

Control Activities

The policies and procedures that help ensure that actions identified as necessary to manage risks are carried out properly and in a timely manner

- Must be implemented thoughtfully, conscientiously, and consistently
- Unusual conditions identified must be investigated and appropriate corrective action taken
- Should be proactive, value added, and cost effective
Control Activities

- Approvals, authorizations, and verifications
- Reconciliations
- Reviews of performance
- Security of assets
- Segregation of functions
- Controls over information systems

Question 1

One HR employee is in charge of hiring, and a second HR employee is in charge of entering and approving time (unit time administrator). Is this a good example of segregation of duties?

a) Yes, because both employees are involved in the HR process.
b) Yes, because HR functions have minimal fraud risks.
c) No, because the second employee in charge of entering time also approves time entered.
d) No, because in order to have proper segregation of duties, someone outside of HR must approve the reports.

Would your answer change if someone independent was reviewing labor distribution reports?
Question 2

An employee has the authority to initiate expenditures, and the Fiscal Officer (FO) of the department approves the transactions and is also the only one to review the monthly operating activity. What controls could be added to reduce the likelihood of fraud?

a) Management (not FO) performs a periodic review of expenditures and selects 3 to 5 to test
b) Have another person within management use BI or Kuali to run queries on FO activity.
c) Require that the FO report to executive management on all monthly activity.
d) None-one employee initiates and the FO approves

e) a, b, and c

Query Reports

• Financial System query for fiscal officer activity
• Account Review Report (FIN500)
• Monthly Operating Statement (FIN49)
• Budget to actual comparison – not perfect, but can have some benefits
• What other tools have you used?