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
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 approach for the annual audit plan
  – Complexity of unit/process
  – Emerging issues
  – Validation of university controls
  – Direct contact/requests

• Processes and units

• More than financial audits
Internal Audit Engagement Types

• Audit
• Limited review
• Consulting assignment
• Fraud investigation
• Operational audits
• Other special investigations / projects
Representative Risks

- Noncompliance with government and private funding requirements
- Conflict of Interest
- 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
Representative Risks

SEE SOMETHING

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

- Identify
- Manage
- Assess

The process involves identifying risks, assessing them, and managing them iteratively.
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
What are the three major RISKS facing:

• Your college
• Your department
• The university
Why are controls important to MSU?
Fraud Statistics

Most Important Contributing Factor

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<tr>
<th>Factor</th>
<th>2012</th>
<th>2010</th>
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<tr>
<td>Lack of Internal Controls</td>
<td>35.5%</td>
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<tr>
<td>Other*</td>
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<td>Lack of Reporting Mechanism</td>
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Percent of Cases (1,388 cases)

Taken from the 2012 ACFE Report to the Nation
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
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?
Financial System Query
Financial System Query
Financial System Query
## Financial System Query Results

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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
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 Fraud

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

Key links:
- IA website: www.msu.edu/~intaudit
- Fiscal misconduct guidelines: http://www.ctlr.msu.edu/COMBP/FiscalMisconduct.aspx
Michigan State University Fiscal Misconduct Hotline

Michigan State University has developed the Fiscal Misconduct Guidelines and the telephone hotline including a web reporting feature to help maintain adherence to ethical business practices. The goal of these guidelines and service is to provide direction for recognizing and reporting known or suspected fiscal misconduct for Michigan State University.

The University contracted with The Network, Inc. to provide the fiscal misconduct hotline service on a 24 hours a day, 365 days a year basis. The hotline is staffed by The Network, Inc with specially trained personnel. University employees do not answer calls. When someone calls the hotline, they will be asked to describe the suspected problem in as much detail as possible. They may remain anonymous. Upon completion of the call, the interviewer will promptly relay the information to the University for investigation. Alternatively, the caller can contact the Director of Internal Audit via email at tiuccckk@msu.edu or directly at (517) 355-5036. Separately, if preferred, an individual can use the web reporting feature of The Network Inc. by using the link below. The reporting feature of this website allows for anonymous entries.

Telephone Hotline Number
1-800-763-0764

Anonymous Web Reporting [here]
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?
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...
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 should 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 should 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
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 should 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 should 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 unrestricted MSU account so “we can have funds to pay for all those little “extras” that the university won’t allow.”

What should you do?
Ethical Dilemma #5

What should 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
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 should 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 fiscal misconduct hotline.
“Conflict of Interest”

Occurs in:

• Employment
• Outside Companies
• Other

“Conflict of Commitment”
Ethical Conduct – Who should you Contact?

• Supervisor
• Human Resources
• Purchasing
• Accounting/FMS
• Internal Audit/Fiscal 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!

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Finance & Operations
Audit Manager
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Tom Luccock
Director
Email: tlucock@msu.edu

Internal Audit Main Phone:
(517) 355-5030

MSU Fiscal Misconduct Hotline:
1-800-763-0764

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