

the Quæstor Quarterly

Volume 1, Issue 2

June 2006

quæs · tor [kwes'tôr] 'one who asks questions'

So, It's Your Turn to be Audited.....

When you are notified that your department or operating unit will be receiving a visit by Institute Audit, Compliance & Advisement (IACA), don't be unnecessarily concerned. IACA performs a variety of audit and review engagements throughout campus every year. One of the goals of IACA is to assist departments by offering recommendations on how to improve their internal controls so that they will not be as susceptible to fraud, will not rely on improper information, and will avoid situations that can get in the way of achieving the department's objectives. If your department is selected for an audit we will try to select a time of year that works best for you, although some disruption may be unavoidable. We are hoping that by providing some insight into the audit process, your anxiety level will be reduced when we call to schedule an audit or review engagement with your department.

Why us, what did we do to deserve an audit?

Each year, IACA performs an Institute-wide risk assessment. The results of that risk assessment process provide the basis for the development of IACA's annual work plan. IACA's work plan is comprised of audits, business process reviews, questionnaire reviews, and continuous (fraud) auditing. If your department is selected for an audit, it does not necessarily mean that there is a problem in your area. Your department may have been chosen because of the nature of the work that it does on campus, the length of time since you've been audited, or for other reasons. Regardless, the IACA staff understands that an audit can be disruptive to your operation; therefore, we will work closely with you on manageable dates and reporting timelines.

The Audit Planning Phase

This is a very important part of our audit process. A well planned engagement will provide us and our client with an efficient and well-run audit. IACA staff will generally meet two times with the client department during this phase to obtain important specific operational information, discuss any management concerns, review the audit timeline, identify key contacts, and review the audit scope. Much of this phase happens within the walls of the IACA offices.

The Audit Fieldwork Phase

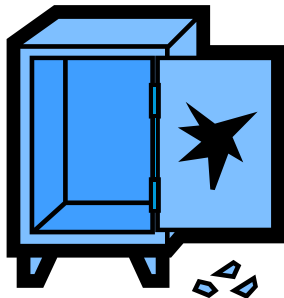
This phase is when the actual audit work is performed and is conducted both at the client's site and in the IACA offices. The fieldwork is generally led by a senior internal auditor and may include the use of a staff internal auditor or a co-op student auditor. It is possible that you will have some interaction with IACA's Associate Director or Executive Director during this phase as well.

To be continued in the next issue.....

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Did You Know?

The rates of initial detection of occupational fraud in 2004 were:

- 39.6% ~ Tip
- 23.8% ~ Internal Audit
- 21.3% ~ By Accident
- 18.4% ~ Internal Controls
- 10.9% ~ External Audit
- 0.9% ~ Notified by Police

The sum of percentages exceeds 100% because in some cases survey respondents identified more than one detection method.

Source: 2004 Association of Certified Fraud Examiners Report to the Nation

The Word on the Street

In an effort to protect my staff and the Institute from unpredicted operational inaccuracies, I requested the IACA Office to conduct a review of the internal controls at the Gordon Field House Box Office. I was ready for a second set of 'eyes' to view our operation to ensure that ticket, cash and credit card handling were performed to the highest standards. Pat Didas, IACA Associate Director, was able to quickly and thoroughly understand the operational needs of the Box Office and presented relevant recommendations for the Box Office to implement. Although the size and complexity of the task was small, the communications were always timely and consistent. I was impressed with the interview feedback I received, which was somehow a thorough wish-list, and at the same time, concise. The Gordon Field House Box Office has adopted and will continue to adopt these recommendations in the future.

Luke M. Mekker
Director - Field House Operations

Hot Topics ~ Fraud / Theft in the Workplace

You may recall some of these startling fraud facts that were included in the March 2006 Quaestor Quarterly and sourced from the *2004 Association of Fraud Examiners Report to the Nation*:

- The typical U.S. organization loses 6% of its annual revenues to occupational fraud.
- Among fraud cases reported by a tip – 60% came from employees, 20% from customers, 16% from vendors, and 13% were anonymous.
- Most occupational fraudsters are first time offenders.

Since fraud is present at some level in every organization, IACA includes fraud detection as a part of its annual work plan. Yes, even here at RIT, fraud and theft is occurring as you are reading this article and yes, some employees have been terminated for their actions.

IACA investigates various types of fraudulent activity including:

- falsification of travel expense reports
- personal purchases charged to Institute procurement cards
- forgeries of signatures on petty cash, invoice payment forms, and travel expense reports

The underlying reasons for such activities include:

- lack of management oversight
- lack of segregation of duties
- lack of appropriate ledger review

Appropriate management oversight includes, at a minimum, a cursory review of the ledger activity by the person who is fiscally responsible for the ledger accounts (i.e. the department director, division vice president, college dean, or principle investigator).

Adequate segregation of duties occurs when one person alone is not responsible for all aspects of the financial activity in the account (generating the form of payment, approving it, reviewing ledger activity, and reconciling deposit amounts).

Appropriate ledger review includes reconciling each charge or deposit on the ledger reports to supporting documentation.

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Fraud / Theft in the Workplace (Continued from page 2)

The following are best practices for preventing fraud:

- Be diligent. If something you are witnessing does not seem right, question it or report it to the anonymous RIT Ethics Hotline, IACA, or Campus Safety.
- Review your Oracle ledger activity for unusual items.
- Appropriately safeguard Institute procurement cards.
- Secure departmental petty cash funds.
- Obtain keys, identification cards, and procurement cards from terminated employees.
- Assure there are appropriate internal controls in place for adequately safeguarding cash receipts throughout the revenue cycle.
- Assure segregation of duties exists.

The vast majority of Institute personnel are ethical, well intentioned, and desire to conduct Institute business activities with utmost propriety. However, there are some employees that are breaching the Institute’s and their supervisor’s trust by making fraudulent choices.

In the next issue we will answer the question, “Why do people commit fraud?”

Control of the Quarter

Segregation of duties is a key internal control. It means that no single individual should have control over two or more phases of a transaction or operation. Segregation of duties provides two benefits: 1) it is more difficult to carry out a deliberate act of fraud since it would require collusion of two or more persons; and, 2) it is much more likely that errors will be found.

To ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business, managers should assign responsibilities to ensure a cross-check of duties. Here are a few examples of a lack of segregation of duties:

- one person depositing checks and reconciling bank statements
- one person authorizing/approving a purchase, receiving the asset and then maintaining custody of the asset
- one person having a procurement card to make purchases and reconciling the department / project statements

Remember, if a single individual can carry out and conceal errors and/or irregularities in the course of performing his/her day-to-day activities, it is likely that they have been assigned or allowed access to incompatible duties or responsibilities. When a duty can’t be fully segmented, “mitigating” or “compensating” controls must be established - but we’ll save that topic for the next newsletter.

~Controller’s Office

MY TWO CENTS

You’ve read about the IACA audit process, so now I’d like to share some information with you about our advisory services. I believe that assisting Institute managers outside of an audit engagement can be very valuable. Advisory engagements provide benefits to both IACA and our clients. We are able to learn more about Institute operations and we provide the advisory client with a fresh perspective on a particular topic. Advisory engagements will generally fall into one of the following categories:

- benchmarking among peer universities
- procedural reviews for adequate controls, efficiencies, and key compliance requirements

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Ensure that your department has established and is maintaining good internal controls.

To learn more about internal controls, sign up for C.A.R.E.S. Training.

Dates:

July 19th, 2006
1:30 PM - 4:00 PM
Location: CIMS 2220

September 21st, 2006
1:30 PM - 4:00 PM
Location: CIMS 2140

December 20th, 2006
1:30 PM - 4:00 PM
Location: CIMS 2140

Sign up at the CPD website
<http://finweb.rit.edu/cpd/topics/carestraining.html>



Ask the Auditor ~

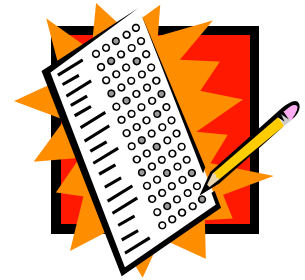
Submit a question to the IACA webpage <http://finweb.rit.edu/iaca/forms/ask/> by 8/1/06. If your question is chosen for publication in our newsletter, you will receive a prize worth \$15.

Pop Quiz

The first reader to correctly answer the question below will win a prize worth \$10.

Question: The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets is called:

- A. internet fraud
- B. credit card fraud
- C. occupational fraud
- D. mail fraud



See our Q&A webpage to post your answer:

<http://finweb.rit.edu/iaca/forms/quiz/index.cfm>.

The winner's name and answer will be included in the next newsletter.

- Congratulations to Jane McGrath-Briggs of Accounting and Financial Reporting, for being the first reader to correctly answer the March issue Pop Quiz question.
- The correct answer to the March issue's question, "**All of the following are primary objectives of the overall management process except**" is:
 - A. Improving the effectiveness of risk management, control, and governance processes.

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My Two Cents (Continued from page 3)

- data trend analysis
- participation on a project team
- review of new processes or policies
- fraud investigation

We work closely with the client manager to define the scope of the engagement up front to ensure a productive and efficient engagement. During fiscal 2006, IACA performed eleven advisory engagements with clients from within the following RIT divisions:

- Finance & Administration
- Student Affairs
- Academic Affairs
- Information Technology Services (now part of Finance & Administration)

In each issue of the QQ, we provide our past advisory clients with the opportunity to share their experiences with readers in the "Word on the Street" section. If you would like to discuss the possibility of IACA performing an advisory service for your department, please contact me directly. We welcome the opportunity to serve all areas within the campus community.

~Steven M. Morse, Executive Director