

the Quaestor Quarterly

Volume 2, Issue 1

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

"Please Sign Here..."

In the course of conducting business, the act of obtaining and granting approvals is intertwined with virtually every aspect of operations. From an internal control perspective, this activity is vital to a strong control environment. However, the effectiveness of this control is entirely dependent on the nature and extent of the review performed by the approver prior to granting approval, the approver's other responsibilities, and the relationship of the approver's function to the requester's function (i.e. authority vs. subordinate).

Too often approvals are granted with little or no review of the transaction; a variety of reasons for this lack of diligence is often cited including time pressures, redundancy, complexity, and trust of the individual requesting approval. However, what is often misunderstood is that along with the power to offer that "John Hancock" as approval comes a great deal of responsibility and accountability.

To ensure an effective approval – one that can be held above scrutiny, both the grantor and the requestor of approval should evaluate the legitimacy of that approval. If any of the following aspects are missing or compromised, questions should be raised or actions should be modified:

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- Ensure that the approval function is appropriately segregated. This means that the functions of approval, recordkeeping, custody, and reconciliation should be adequately separated so as not to allow any one person to control more than one aspect of a transaction, unless the risk is properly mitigated – generally with a greater level of oversight.
 - So make sure that if you are approving, you have the appropriate level of internal control protection.
- Ensure that the approver is at least one-level-up in the organizational hierarchy and has the necessary authority to grant approval for the document in question.
 - So be certain to question if the approver is the appropriate choice. And remember, a subordinate should never approve the transactions of a superior.



Spreadsheet Risk

Many of us use and rely on spreadsheets regularly in our daily work routine. Spreadsheets can add incredible efficiency to otherwise laborious tasks, but they are only as good as their formulas.

The following text was excerpted from a March 4, 2005 Rochester Business Journal article written by Eric Cohen entitled "Relying on Spreadsheets Can Lead to Costly Errors."

Spreadsheets are great, but it seems like most have some little error in them. What is the worst thing that a spreadsheet error might lead to?

History shows the answer might be public embarrassment, loss of business, fines and penalties, huge financial loss and even business failure.

I compare spreadsheet use within organizations with ants. The ant is a praiseworthy insect— and awfully hard to get rid of when they establish themselves in your home.

In the same way, the spreadsheet is the mighty mite businesses rely on for vital parts of their financial functions. However, spreadsheets proliferate and there is seldom one version of the truth— if any of them do express the truth.

You do not have to go much farther than the front pages of the business section to see examples of big problems from little spreadsheets.



- ***In October 2003, Fannie Mae had to restate their earnings by \$1.2 billion due to “honest mistakes made in a spreadsheet used in the implementation of a new accounting standard.” A new accounting standard, Financial Accounting Standards 149, wasn’t handled by their normal accounting system, so they had to use spreadsheets to calculate the effect.***
- ***An “isolated clerical error” cost TransAlta Power L.P. among Canada’s largest non-regulated power generation and wholesale marketing companies \$24 million, according to their website, when in June 2003 they won a number of contracts at a higher price than they should have. Sometimes contracts can be corrected if there is an honest calculation error: not this time.***
- ***The city of Macon, Ga. found itself in a difficult position in June 2004; the spreadsheet said they were doing fine; the bank account said that making payroll on an ongoing basis might be impossible. A spreadsheet error caused general fund expenditures to be understated by nearly \$1.1 million. Fortunately, employee attrition, which hadn’t been budgeted for, helped make up the difference.***

Given that spreadsheets have often been used for a very long time, and that we rely on the calculations performed, it is a good control to have someone who does not use a particular spreadsheet, periodically review the formulas contained within and give it a general check up. You may be surprised at what you find or what has been hiding in the cells.

Control of the Quarter

Internal control is a process that refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Safeguarding assets
2. Ensuring validity of financial records and reports
3. Promoting adherence to policies, procedures, regulations and laws
4. Promoting effectiveness and efficiency of operations

RIT has developed/implemented numerous control practices and/or activities designed to ensure that the actions identified by management as necessary to address risks to achievement of the University's objectives are effectively carried out.

One example of a control activity is the **annual fixed asset (equipment) inventory**. This process requires that all departments perform an actual count of their fixed assets compared to the records maintained in the University's fixed asset system. Property Control is responsible to update the system with any changes such as room and building number and to remove items that are no longer in use.

The annual equipment inventory process is not only a good business practice, it is intended to provide assurance regarding the achievement of various internal control objectives including:

- Accuracy (validity) of the University's financial statements – The inventory process is designed to ensure that fixed assets of the University are correctly stated on its balance sheet.
- Compliance (adherence) with procedures and laws – As a recipient of Federal funds, RIT is required to comply with OMB Circular A-110's property control standards. A-110 requires that detailed records of equipment are maintained and that periodic physical inventories are conducted.

While it is always a challenge for departments to find the time to complete the annual fixed asset inventory, it may help to know it's just not a bureaucratic requirement; it's one essential component of the University's internal control process.

~ Controller's Office

"Please Sign Here..." Continued from page 1:

- Prior to granting approval, the approver should apply the appropriate level of scrutiny by evaluating the transactions in terms of appropriate business purpose, compliance with RIT and regulatory policy, and adequacy of the supporting documentation.
 - Ensure that the approver is actually reviewing the transaction and not simply signing without review because "we have always done it this way."
 - As the approver, review should include the following:
 - Check that all supporting documentation is present, appropriate, and sufficiently detailed.
 - Ensure the transaction has a valid business purpose.
 - REMEMBER: If there are aspects of the transaction that are not clearly understood – ASK QUESTIONS!
- Document the approval – the document reviewed should be signed and dated by the approver.
 - Remember, the act of approving indicates that the transaction is appropriate, directly relates to RIT's operations, is compliant with all regulatory and university policies, and is properly supported.

So the next time you are asked to approve something, remember that the level of diligence you apply to the activity directly reflects the level to which you value your signature.

~ Wendy J. Roy, Sr. Internal Auditor



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:

February 1, 2007
9:00 AM - 11:30 AM
Location: CIMS 2140

March 14, 2007
1:30 PM - 4:00 PM
Location: CIMS 2140

May 1, 2007
9:00 AM - 11:30 AM
Location: CIMS 2140

June 13, 2007
1:30 PM - 4:00 PM
Location: CIMS 2140

August 2, 2007
9:00 AM - 11:30 AM
Location: CIMS 2140

Sign up at the CPD website
<https://finweb.rit.edu/cpd/leadership/cares.html>



Ask the Auditor ~

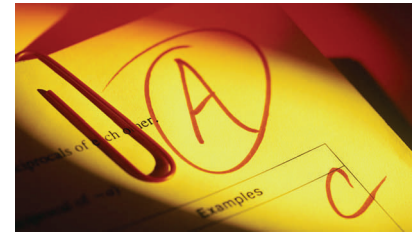
Submit a question to the IACA webpage <http://finweb.rit.edu/iaca/forms/ask/> by 3/1/07. If your question is chosen for publication in our newsletter, you will receive a prize worth \$15.

Pop Quiz

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

Question: The main reason employees commit occupational fraud is...

- A. Poor internal controls
- B. Greed
- C. Personal financial problems
- D. Dissatisfaction with the employer



See our Q&A webpage to post your answer:

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

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

- Congratulations to Linda Coppola, the Liberal Arts Reference Librarian, for being the first reader to correctly answer the October issue Pop Quiz question.

The question and the correct answer for October:

“The most common method employees use to steal cash from an organization is...”

- A. Fraudulently billing for goods or services

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R·I·T

MY TWO CENTS

I'd like to share two IACA happenings with you this quarter. First, please join me in congratulating Pat Didas, IACA's Associate Director, on his recently earned Certified Fraud Examiner (CFE) designation. The CFE designation is awarded by the Association of Certified Fraud Examiners to professionals that have passed a comprehensive examination and are knowledgeable in four areas critical in the fight against fraud: Fraudulent Financial Transactions, Criminology and Ethics, Legal Elements of Fraud, and Fraud Investigation. Pat's knowledge and guidance in the area of fraud investigation has been invaluable to IACA over the past year.

The second important happening in IACA is the recent addition of Julia Smith to our staff for the winter and spring quarters. Julia is a fourth year COB Accounting student who is satisfying her Co-op requirement and has been helping us out a great deal since she joined us in December. Julia will be working with our senior internal auditors in the delivery of our audit, questionnaire review, and advisory services. IACA intends to use Co-op students going forward as this resource will allow us to obtain increased coverage of the RIT audit universe as well as providing a challenging and meaningful work experience for students. Please join me in welcoming Julia to our staff.

I'd like to wish all of our readers a new year that is filled with accomplishments and happiness.

~ Steven M. Morse, Executive Director