

the Quæstor Quarterly

Volume 2, Issue 2

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

To "prevent" or "detect" that is the question.....

What exactly is a control? The definition of "control" according to the Webster's New World Dictionary is "to check or verify (payments, accounts, etc.) by comparison with a duplicate register." It further defines control as the "ability to use effectively." Both of these definitions are consistent with the meaning of an *internal control* in the context of internal auditing. During an audit, the auditor reviews each process to determine what can go wrong such as errors (inaccurate, incomplete, or untimely transactions) or the ability to commit fraud (i.e. misappropriation, theft). The auditor then evaluates whether there are adequate internal controls in place to reduce these risks. Once an auditor determines that adequate internal controls exist in a process, these controls are tested to evaluate their effectiveness and efficiency.

There are primarily two types of internal controls, preventive controls and detective controls. Preventive controls exist at the beginning of and/or occur during a transaction. These controls are designed to prevent an adverse situation (i.e. errors or fraud) from occurring. An example of a preventive control that occurs at the beginning of a process is an authorization for a transaction to take place, such as an authorized signature on an invoice payment form. The purpose of this control is to prevent unauthorized payments from occurring. An example of a preventive control that occurs during a process is the placement of restricted fields in a software program that only accept certain characters, such as numbers in a specific range. The purpose of this control is to prevent inaccurate transactions from occurring. Documented departmental policies and procedures and employee training are other good examples of preventive controls since these procedures help to ensure that employees understand department operations which results in fewer errors.

Detective controls occur subsequent to the completion of a transaction or process. The purpose of a detective control is to identify when an adverse situation has occurred after the fact. Monthly account reconciliations are an example of a detective control. The purpose of this control is to detect any unauthorized, inaccurate, incomplete or untimely transactions that occurred in the account during the month. Another example of a detective control is the monthly review of procurement card statements to detect unauthorized

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To “prevent” or “detect” ... *(continued from p. 1)*

or inappropriate (non-compliance with RIT or department purchasing policies) purchases. Once identified, any errors or problems can be rectified or addressed, but to be effective, these controls need to be performed on a consistent and periodic basis.

You may think that preventive controls are more effective than detective controls since they prevent an error from occurring in the first place. In reality, no matter how well a process is controlled, and the risks mitigated, there is always a chance that a control can breakdown and a mistake can be made. Therefore, detective controls are just as important as preventive controls, and in the end, a combination of strategically placed controls both throughout and subsequent to a transaction is the winning combination.

~ Nancy A. Nasca, Senior Internal Auditor



Occupational fraud can be found in any workplace. Whether an organization is a non-profit entity such as a university or a large for-profit corporation, fraud has occurred and continues to occur.

To learn more about occupational fraud, sign up for Fraud in the Workplace Training.

Date:

June 5, 2007

9:00 AM - 11:00 AM

Location: CIMS 2140

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

Word on the Street

As a long-time member of RIT’s Research Oversight Committee (now the Oversight Committee for Externally Sponsored Projects), I knew that the Institute’s Research Oversight Policy (now the Oversight Policy for Externally Sponsored Projects) was subject to a biennial compliance audit. The auditors pursued their work through direct interactions with Marjorie Zack - Director of Sponsored Research Services (the office which administers the oversight policy, as staff to the oversight committee). Margie, in turn, worked with her staff to respond to the audit’s major findings.

In the case of the most recent audit, the process provided the Oversight Committee with some excellent procedural improvements. For example, one of the committee’s main activities has long been reviewing the “Notices of Award” forms, which summarize pertinent details about each externally funded project at RIT. Our practice was for each of the committee’s members to review the new NOAs from a particular college. At the meeting, we would each report the problems we had noticed or the questions we had about our assigned NOAs. My sense was that we were doing a fairly thorough job. But I learned from the audit that our thoroughness wasn’t showing up in the official record. Margie proposed that each of us “sign off” on the list of the particular NOAs we reviewed - not to certify the accuracy of every item of information, but to establish a record of who had reviewed which NOAs. From my point of view, the new practice definitely improved our accountability, by giving us a fuller record of our proceedings.

Beyond its particular findings, there’s another way in which I found the audit helpful. It helped me see more clearly the value of an “outside” perspective - not just occasionally, but on a regular basis, as a way of complementing the committee’s own efforts at self-evaluation.

Tom Cornell

Chair, Oversight Committee for Externally Sponsored Projects

Control of the Quarter

The major objective of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is to identify factors that cause fraudulent financial reporting and to make recommendations to reduce its incidence. COSO has established a common definition of internal controls, standards, and criteria against which organizations like RIT can assess their control systems. According to COSO, internal control consists of five interrelated components which are derived from the way management runs an organization and are integrated with the management process. The components include:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.

According to the Institute of Internal Auditors, the most efficient and cost-effective way to implement and assess internal control...is to build control consciousness throughout the organization. While every employee in the RIT community has personal and professional obligation to put forth a good faith effort in the protection of university assets and resources, a manager has a particular responsibility to ensure that the control environment in his/her business unit/department is aligned with the expectations of the University.

In the next newsletter we'll discuss the major principles related to the achievement of control objectives at the risk assessment level. Also, if you are interested in learning more about how maintaining good internal controls can benefit your department, sign up for an Internal Controls Training session offered through CPD (see session dates and times on this page).

~ Controller's Office

Newsletter Question Answered

The following question was submitted by Deborah Freeman, K-12 Programs:

How much time is given a department to prepare for an audit?

Typically, IACA's annual audit plan for the upcoming fiscal year is approved by the Audit Committee of the RIT Board of Trustees during the spring of the current fiscal year. Shortly after receiving approval, IACA's Executive Director will contact management of a department included in the annual audit plan to inform them of the audit as well as determine the best time to schedule it. This would essentially provide anywhere from 2 – 11

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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 Internal Controls Training.

Dates:

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

September 25, 2007
1:30 PM - 4:00 PM
Location: CIMS 2140

November 15, 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 6/1/07. If your question is chosen for publication in our newsletter, you will receive a prize valued at \$15.

IACA TEAM:

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Newsletter Question Answered *(continued from p. 3)*

months notice that an audit was to take place in your department. In addition, 2 – 3 months prior to the start of the planning phase of the audit, IACA's Associate Director sends an email message reminding management of the upcoming audit. Approximately 3-4 weeks prior to the scheduled start of the audit, the Senior Auditor assigned to the engagement contacts management of the department to schedule a planning meeting (which ideally is held between 3-4 weeks prior to the actual start of the fieldwork phase of the audit). Also at this time, we typically ask management to provide any information that would be considered pertinent as we plan the audit as well as to complete a departmental self-assessment questionnaire. During the fieldwork phase (i.e. the time that we are actually performing our audit procedures), we usually ask that any requested information be provided as soon as reasonably possible in order to bring the engagement to closure in a timely fashion. As you can see, we are committed to providing as much advance notice as possible to our audit clients.

In terms of how much time a client would need to prepare for an audit, the expectation is that it should be minimal because a properly organized and controlled department would effectively always be prepared for an audit. The processes that you have in place should be such that everything is in order and up to date on a regular basis, and that organization of documents occurs reasonably concurrent with the processing of those documents. If you believe that it might take you or your department a couple of months to prepare for an audit, it might be time to focus on revising the processes that are currently in place. If you believe that your department's processes are in need of modification, but are unsure of where to be start, please feel free to contact IACA. We'd be happy to assist you if possible.

~ Wendy J. Roy, Senior Internal Auditor

Pop Quiz

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

Question: The number one method by which fraud is discovered in an organization is...

- A. Analytical techniques.
- B. Accidental discoveries.
- C. Tips and complaints.
- D. None of the above.



See our Quiz 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 Marianne Buehler, the Head of Publishing and Scholarship Support Services, for being the first reader to correctly answer the January issue Pop Quiz question.

The question and the correct answer for January:

"The main reason employees commit occupational fraud is..."

- D. Dissatisfaction with the employer.