

THE UNIVERSITY OF KANSAS

Internal Control and Fraud Awareness

A presentation by Internal Audit
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 University Director of Internal Audit

Who is Internal Audit- What do they Do?

What I am supposed to do (Procedures)

What I really do (Testing)

\$ 1.5 Billion

2,000

1,200

80%

We are Partners – A University Resource!

- Educational/Proactive/Systematic
- Self Reviews
- Consultative
- Data Mining/Science

Presentation Agenda

- Introduction to Internal Audit/ Internal Controls (*Video*)
"Why To"
- Key Internal Control Assessment Areas
"How To - 1"
- Practical Guidance and Helpful Tools
"How To - 2"
- Fraud Awareness/ Responsibility/ Response (*Video*)
"How To - 3"
- Presentation Wrap-up Including Next Steps
"Want To"


**** DEVELOP DISCUSS DESIRE ****




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Introduction from the Chancellor



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WHAT ARE INTERNAL CONTROLS?



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Internal Control

- Internal control is the system of accounting and administrative processes **established by management** to ensure that management's objectives will be achieved.
- Management is also responsible for knowing the exposures to **fraud** for their areas and for **detecting suspected wrongdoing**.
- Management is further responsible for **maintaining** appropriate internal control in their areas based on the COSO model below.

Internal Control Components

Management's Objectives

Monitoring

Control Activities

Risk Assessment

Control Environment

Information & Communication

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IC Process = Objectives + Components

Definition
Internal control is a management process designed to achieve

Objectives Categories
Effectiveness and efficiency of operations
Reliable financial reporting
Compliance with laws and regulations

Objectives
Various business, company specific
Reliable financial annual and interim reports (e.g., GAAP)
Compliance with laws and regulations that apply to the company

Components
Control environment
Risk assessment
Monitoring
Information and communication
Control environment
Risk assessment
Control activities
Monitoring
Information and communication

Internal Control Components

Management's Objectives

Monitoring

Control Activities

Risk Assessment

Control Environment

Information & Communication

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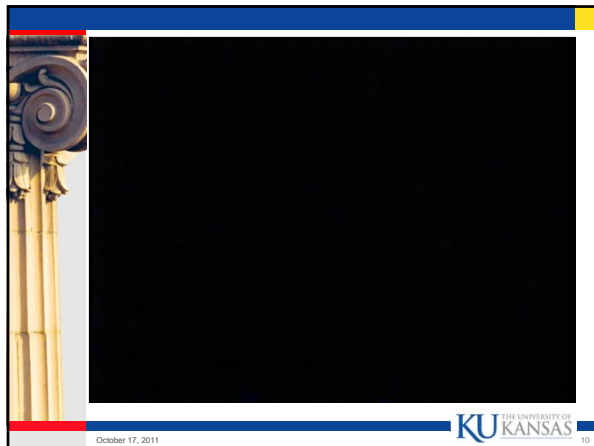
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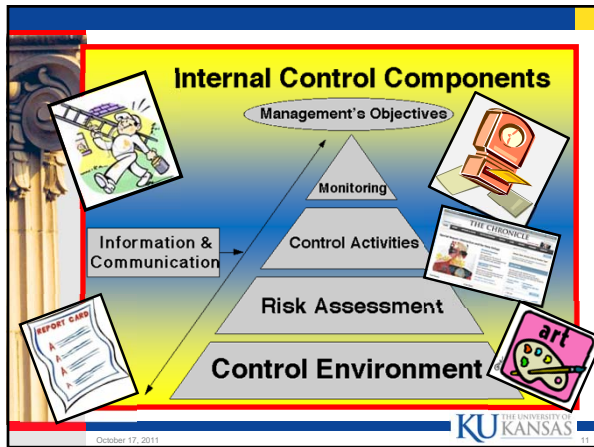
AGUA Video

... It is the PLOT that counts...

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What Your Peers Have to Say

If you could tell the **Cancellor or the Provost** to do one thing, what would it be?

- "Create an environment where all feel empowered, all are accountable, and all are responsible. This will encourage staff to work in a different way. Where they feel their voice will be heard."
- "Tie financial systems together."
- "Stress the tone at the top and hold deans accountable."

If you could tell the **Comptroller - Top Fiscal Officer** to do one thing, what would it be?

- "Show a due diligence that we maximize the benefits of our re-sources to fulfill our mission. Develop the thought process that good practices is everyone's business."
- "Please devise and enforce a cohesive, sustainable accounting system to be trained and used by anyone dealing with finances. Train, train, train. Enforce, enforce, enforce."
- "To hold informational meetings each quarter- Improve financial communications."

If you could tell **Internal Audit** to do one thing, what would it be?

- "We need to encourage better documentation of our processes and procedures which would allow University Administrators to rely less on the various subject matter experts across campus. Because things are not documented very well, we often rely on staff that have been here many years."
- "As a new chair, how do I get these procedures (internal controls) in place?"
- "Follow up with a workshop on "best practices" to put a monthly reconciliation process in place for both financials and time & leave."


Internal Controls are EVERYBODY'S Business...

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KU High Risk Area's of Concern

• 6 key areas to **F**OCUS on

1. **Policies and Procedures**
2. **Reconciliations**
3. **Information and Inventory Management**
4. Cash on Hand, Receipting and Handling
5. Procurement Card & Expenditure Approval
6. Time & Leave Reporting



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Internal Control Assessments - *a process...*



- Questionnaires
- Flash Controls
- SAAS Detailed
- Internal Control Guide
- Reviews

IA Website: Suite of Services tab and is entitled "SAAS and Flash Review"
<http://internalaudit.ku.edu/consulting/saas.shtml>

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Policies and Procedures

Are your processes on 'paper' and communicated to your department personnel?



- Policies and Procedures that are written down and communicated to the appropriate persons is one of the most **effective** controls Management has over their administrative structure.
- Policies and procedures can be checklists, step-by-step actions, or code cards. They should also be reviewed periodically in case processes change.


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Reconciliations

Are expenditures and commitments of funds tracked and compared to budgets on a timely basis?

Most Misunderstood!

- Proper reconciliation and review of financial reports by the appropriate persons is one of the most **effective** controls Management has over their fiscal integrity.
- The reconciliation reviewer should initial and date the reconciliation report to document their review.

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Information and Inventory Management

Is confidential information - Hard and Elec - properly secured at all times?

- Hard copy confidential information** should always be stored in locked drawers or cabinets and access to the keys should be restricted.
- Electronic confidential information** should be password protected, with password access restricted.
- Desirable Items Inventory

Most Exposed!


- Policies**
 - KUL**
 - The Provost Office Policy Library provides guidance on **information security**: <http://www.policy.ku.edu/infoaccess.shtml>
 - The Comptroller's Office provides guidance on **archiving** guidelines: http://www.comptroller.ku.edu/records_retention/
 - KUMC**
 - The Policies and Procedures Library provides guidance on **information security and archiving** guidelines: <http://www2.kumc.edu/ir/policy/>
<http://www.kumc.edu/Pulse/policy/recordretention.html>

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6 Key Areas to Focus On

- Policies and Procedures
- Reconciliation of account balances
- Information and Inventory Management

Department Activity	Control Activity ?
* Cash on hand, receipting and handling	* Segregation of Duties ?
* Procurement card & Expenditure approval	* Authorization/Verification ?
* Time & Leave reporting	* Reviews of Performance ?

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Internal Control Manual



This manual, by design, is a work in process – constantly being updated – but it is a terrific tool for fiscal officers to review and incorporate in their individual unit control processes.

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Email questions, comments, requests for additions and corrections to hsawicki@ku.edu

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What can you expect to see?

- Description of Risk
- Criteria
- Auditor's Overview
- Best Practices
- Process
- Related Issues
- Related Links




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The Perfect Storm


- Serious business storm looming on the horizon.



- Intensify your student, faculty and staff's exposure to the existing University fraud reporting mechanisms.

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What is Fraud?

- Misrepresenting Time Sheets
- Theft of Cash
- Theft of Equipment
- Fraudulent Expenses (Travel, Personal)
- Misuse of P-card
- Conflicts of Interest
- Abuse of Human Capital
- Ticket Fraud
- Kickbacks, bribes
- False Journal Entries
- Falsification of Foreign - Student Status

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"Unmask" Fraud

Person

- **Refusal to take vacation** or sick leave
- **Living Beyond Means:** Expensive cars, jewelry, homes, clothes
- **Significant personal debt** and credit problems
- **Behavioral Changes/Outbursts:** May be an indication of drugs, alcohol, gambling, or just fear of losing the job
- **Lack of segregation of duties:** Wants to do all parts of a process

Environment

- High employee turnover
- Lack of segregation of duties
- No attention paid to details
- Unrealistic productivity measurements
- Operating on a crisis basis
- Close association with suppliers and other key people



When Peculiar Personality crosses over to Criminal Conduct...

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University Fraud Reporting Mechanisms

REPORT FRAUD,
WASTE, ABUSE
& ETHICS ISSUES



KU Fraud Hotline
 (785) 864-1300
reportfraud@ku.edu
www.internalshieldku.edu

Call, Email, or Submit a Web Form

Private, confidential, and we promise to assess.
You can count on it.

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Fraud Headlines

THE CHRONICLE
of Higher Education


August 8, 2011

Documentary Delves Into a Suicide and Allegations of Workplace Bullying at a Literary Review

By Robin Wilson
The suicide last summer of Kevin Morrissey, who was the managing editor of *The Virginia Quarterly Review*, has prompted a new Web documentary that explores allegations of workplace bullying. The first installment appeared online today.

Columbia U. Will Pay \$995,000 to Settle Medicare-Fraud Case

Columbia University has agreed to pay \$995,000 to settle a lawsuit alleging that a doctor at an affiliated hospital defrauded the Medicare program by overbilling and by billing for unneeded tests, ...



K.S.A. 21-3910, *Misuse of Public Funds*
We are responsible for -
Preventing and detecting instances of fraud and related misconduct
Establishing and maintaining proper internal controls

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<http://internalaudit.ku.edu/>
