

The Audit Insight



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What is Internal Auditing?

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Benefits of Internal Audit

Internal audit team member(s) provide an independent review of the organization's operations. Reviews offer the opportunity to internally identify and improve operations before weaknesses are identified by external auditors.

The internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified. While management is responsible for internal controls, the internal audit activity provides assurance to management and the audit committee that internal controls are effective and working as intended.

An effective internal audit activity is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the organization and its culture, operations, and risk profile. The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organization's internal control, risk management, and governance processes. Similarly, an effective internal audit activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders.

To learn more about who we are and what we do visit our website at cwu.edu/internal-audit

Safeguarding Assets

Assets are the economic resources a business owns that are expected to be of benefit in the future. Cash, office supplies, merchandise, furniture, equipment, land, buildings, and sensitive or confidential data are some examples. Protective measures must be taken to ensure that assets are maintained in a properly controlled and secured environment. The most important type of protective measure for safeguarding assets is the use of physical precautions. If physical precautions are not in place the following could occur:

- Theft
- Items may be lost or misplaced
- Fraud may be committed using unauthorized data
- Unauthorized transactions or processing could occur if data is not adequately safeguarded
- The University could incur added expenses and loss of revenue.

Best Practices:

The following should be performed to ensure assets are adequately safeguarded:

- Store all assets in a secure, locked area
- Cash should be stored preferably in a fire-proof safe.
- Restrict access to data and other assets to a limited number of individuals within the department or organization
- Ensure proper access controls are in place in systems (i.e., user IDs and passwords that are unique and forced to be changed frequently by the system)

Fact or Myth: Internal Auditors Are All Accountants

While it's true that much of our work is not directly related to accounting, most internal auditors do have accounting experience. There's no doubt that many accountants make ideal internal auditors. Accounting graduates are trained in analytical thinking and in business, so accounting schools are a logical place to look for talent. According to an IIA survey, it seems that most audit executives want to hire accountants, but that doesn't mean they are looking for "bean counters." When asked to name the skills they were recruiting for, their top three choices were: analytical/critical thinking, communication, and business acumen. Accounting and finance knowledge barely made it into the top 10.

Know what to look for to prevent disbursement fraud

Fraudulent disbursements are the most common form of asset misappropriation. This type of disbursement occurs when an employee uses their position to make payment for an inappropriate purpose. They are on-book fraud schemes, which means that money in the form of checks leaves the entity fraudulently, but is recorded on the books and leaves an audit trail. In this way, entities can become victims of fraud, even when no cash is involved. Accounts payable disbursement fraud involves an employer issuing a payment based on invoices for fake goods or services, inflated invoices or personal purchases. Examples include an employee creating a shell company and billing the employer for services not actually rendered, or an employee purchasing personal items on the employer's credit card or submitting a fraudulent invoice to the employer for payment.

Strong controls are the key to preventing or reducing the risk of fraud. In addition, it helps to watch out for these red flags:

- Higher-than-usual costs
- Excess goods and services
- Copies of documents rather than originals
- Missing documents
- Unusual vendors
- Unusual changes in the behavior or lifestyle of employees

While fraudulent disbursement is one of the most common methods used to exploit employer resources, the related paper trail allows this type of fraud to be detected or prevented with proper procedures. As such, consider these monitoring controls:

- Implement adequate segregation of duties or other compensating controls.
- Review vendor listings for unusual vendors or excessive payments to vendors.
- Monitor voided transactions to ensure they are truly voids.
- Review for transactions that seem unusual.
- Only pay original invoices, and ensure they are reasonable.
- Ensure payments made outside normal process are approved, supported and for a public purpose.
- Anytime something seems unusual, ask questions and confirm what was purchased with a third party, if necessary.

TRAINING WITH INTERNAL AUDIT

How to Respond to Audit Recommendations

Learn more about the basic rules for writing a response and suggestions to response strategies to avoid when responding to audit recommendations. This training video is highly recommended for employees with supervisory and management responsibilities. Have a look at our new video that we have prepared for your use at <https://www.cwu.edu/internal-audit/training-video>.

IN THE NEWS

A former University of Wisconsin-Madison employee has been charged with stealing nearly \$114,000 from the school – May 5, 2018

<https://www.seattletimes.com/nation-world/former-uw-madison-employee-accused-of-stealing-from-school/>

A former University of New Mexico basketball staffer has been indicted on a charge of embezzling money by making unauthorized purchases on a university credit card.

<https://apnews.com/9d1b5311b4494c888d975504d0d6fba0/>

INTERNAL AUDIT HOTLINE

www.cwu.edu/internal-audit/hotline

Issues you may want to report through the internal audit hotline:

- Fraud/theft
- Conflict of interest
- Waste and/or misuse of university resources
- Financial policy violations
- Operational policy violations
- Other regulatory violations

Key characteristics of the internal audit hotline:

- Online reporting at cwu.edu/internal-audit/hotline
- Discrete and confidential treatment of concerns to the extent possible under applicable laws.
- Employees may provide their names and contact information, or may choose to remain anonymous.

Any employee who brings an issue to the university's attention through the hotline should be aware that university policy prohibits retaliation against employees who in good faith report apparent violations.



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