

# The Audit Insight



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## What does Internal Audit do?

Internal Audit provides a service to the University. We examine University activities for compliance with applicable policies, procedures, laws and regulations. We also perform reviews and issue audit reports which address the effectiveness of accounting, financial and other controls. Our office is available to assist with concerns, questions, or reviews of new systems, compliance issues, and, as a liaison for external audit interactions.

## Internal Audit: Who we are

Internal Audit is a valuable resource to management in accomplishing overall goals and objectives, as well as in strengthening internal controls and organizational governance.

Internal Audit provides objective, independent, professional advice to management and strives for continuous improvement.

Internal Audit performs the following types of audits:

- Operational Audits – Determining if resources are being used effectively and efficiently to fulfill the University’s mission and objectives.
- Financial Audits – Reviewing accounting/financial transactions accuracy and proper treatment.
- Compliance Audits – Determining if departments are complying with applicable laws, regulations, policies and procedures.
- Internal Control Reviews – Review of operation and adequacy of controls around major business functions (i.e. payroll, accounts payable, and financial reporting).

## The “Typical” Fraudster

Who perpetrates financial reporting fraud? A mastermind, a born fraudster with a clever, criminal mind who recruits others to his or her cause? Or is it an otherwise honest employee who, through circumstances, turns to fraud?

Research indicates it is more often the latter. According to data compiled by KPMG on investigations of 348 serious frauds in 69 countries, 60 percent of individuals who are found to have committed fraud had been with their companies for more than five years. Since the average fraud is discovered within three years, it is a logical conclusion that most fraudsters do not join an organization with the intent to defraud. Just as certain conditions can make an organization more susceptible to fraud, so too can conditions lead an otherwise honest employee to commit fraud. In this study, serious frauds are those considered to be of material value, such as material misstatement of financial results, theft of cash or other assets, and abuse of expenses.

### Taking a swipe at credit card fraud

As noted by the Washington State Auditor’s Office, credit and procurement cards are easy to use, convenient and efficient. As a result, government use of these cards has increased exponentially over the last decade. Unfortunately, there can be a dark side to using cards: they often bypass standard, established payment controls. The combination of high card usage and weak controls is an environment ripe for fraud.

#### What are some of the best practices to prevent and detect card fraud?

- **Policy**—Establish, share and follow a written credit card policy. The policy should consider allowable and prohibited uses, and state that personal use is not allowed. Make it clear what happens if the policy is violated. Require everyone with card responsibilities to periodically review the policy and acknowledge that review with a signature.
- **Records**— Require original, itemized receipts. Also, consider who will be responsible for retaining the supporting records: the card holder should not be the one retaining the original records.
- **Banking controls**— Consider working with your financial institution to set monthly limits and prohibit certain vendor types, such as taverns or online clothing stores. Also, ask if supervisors and/or accounts payable can have read-only access into credit card accounts.
- **Reviewing responsibilities**— Ensure everyone in the review process—from cardholder to accounts payable—knows their role and responsibilities. Someone independent, but knowledgeable of entity or department operations, should periodically perform a complete review of all the charge charges and supporting records.
- **Review for red flags**— Look for unusual vendors or unallowable items, and missing, scanned or photocopied supporting documentation. Examine records for alterations, unusually large volume of transactions, and “ship to” addresses that don’t make sense.

## Review and Approval

When a process is performed within a department, there should always be another level of review and approval performed by a knowledgeable individual independent of the process. The approval should be documented to verify that a review was done. Review and approval are controls that help management gauge whether operational and personnel goals and objectives are being met.

The lack of or inadequate review and approval could result in the following:

- Errors may be overlooked resulting in misstatements that could affect financial, as well as, operational decisions.
- Inaccurate or incomplete information in accounts and/or reports
- The inability to detect irregularities

#### Best Practices:

- A thorough review of processes, transactions, and reports should be performed for accuracy, completeness, and timeliness
- The reviewer should be someone who is knowledgeable about the items or areas being performed such that they are able to readily identify errors and/or omissions
- The reviewer should preferably be someone who has the authority (e.g., supervisory role) who is able to authorize, provide direction, and make decisions about the items under review
- The reviewer should be someone who does not perform the process
- Evidence of the review and approval should be documented (i.e. signed or initialed and dated by the reviewer/approver)

## 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

Inland women accused of stealing \$1 million in financial aid from Fullerton College – May 5, 2018

<https://www.sbsun.com/2019/06/27/inland-women-accused-of-stealing-1-million-in-financial-aid-from-fullerton-college/>

State auditor details nearly \$1 million embezzlement case at community college.

<https://mississippitoday.org/2018/09/24/state-auditor-details-nearly-1-million-embezzlement-case-at-community-college/>

## Hotline Reporting

Report a violation to the CWU [Hotline](#)

An anonymous resource for reporting violations of financial fraud, theft, embezzlement, ethics and waste of university resources.

You are encouraged to file a report if you have factual information suggestive of accounting, auditing or financial fraud, or ethics violations involving any member of the CWU community. To report a violation, click [Hotline](#).

The Hotline is intended for faculty, staff, students and others to report suspected fraud or irregular activities such as improper transactions, suspected thefts, losses, misuse, or inappropriate action involving public funds, equipment, supplies, or other assets.

If you suspect an incident, situation or conduct violates a law, regulation, requirement or university policy, it is your duty to report it. To access the Hotline, click [here](#).

*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.*



## CONTACT INFORMATION

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