

the Quæstor Quarterly

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

So, It's Your Turn to be Audited.....(Continued from the June Issue)

Last time we reviewed the *Audit Planning* and *Audit Fieldwork* phases of an audit engagement. Below is a discussion of the last two phases.

The Reporting Phase

During the reporting phase, audit issues are drafted, discussed with the client, and formalized for inclusion in the audit report. Audit issues are generally situations where adequate internal controls do not exist within the client department. Our audit issue write-up will provide a background on the situation (if necessary for clarification), the observation, a statement that explains the risk of the situation, and recommendations for curing the inadequate internal control. For each audit issue, the client must provide an action plan that resolves the internal control deficiency. The complete final audit report, comprised of an executive summary and detailed audit issues section, is issued to the client (director, department head, etc.), the appropriate divisional vice president, and Dr. Watters - Sr. Vice President for Finance and Administration. The executive summary only is issued to President Simone, members of the Audit Committee of the RIT Board of Trustees, and RIT's external auditors.

The Follow-up Phase

The final phase of the engagement occurs after the audit report has been issued. During the follow-up phase, IACA re-visits the client department to verify that the audit issue action plans have been implemented, thereby curing the internal control deficiency. It is very important that all audit issues are closed in a timely manner to protect the department from further exposure to the risks identified in the report.

Hopefully this information has helped to clarify what happens during an IACA audit engagement. If you have any questions, please contact any of the IACA staff.

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The Word on the Street

Facilities Management Services has utilized the “Advisement” arm of IACA twice over the past year. Both times we found them to be responsive and their services/recommendations useful. Very few department heads that I know have either the time or expertise to perform micro-level in depth reviews of the various activities for which their departments are responsible and of course any department can fall victim to tunnel vision, so proactively seeking a review of new or existing policies, procedures, or protocols is a great “CYA” tool.

Marty Becker
Assistant Vice-President for Facilities Management Services

Hot Topics ~ Fraud / Theft in the Workplace

(Continued from the June Issue)

Why do people commit fraud? Three essential elements are common to all types of fraud schemes: opportunity, need, and rationalization. These three elements comprise the fraud triangle.

Opportunity

The first and most critical element of the fraud triangle is opportunity. Many organizations unwittingly and unwisely provide their employees with a variety of opportunities to commit fraud. The most common factor is the lack of adequate controls for monitoring employee behavior. For example, a bookkeeper in a clinic was given the responsibility to prepare checks, sign checks, and record the payments in the cash disbursements journal. The bookkeeper discovered the opportunity for fraud and embezzled almost \$1 million in cash. Adequate internal controls require—at the very least—that these three responsibilities be segregated among at least two or more employees

Need

Not all employees will exploit the opportunity to commit fraud. What is it that induces one employee to commit fraud and another to remain honest? The answer is need, the second element of the fraud triangle. Financial need can come from a variety of sources, including:

- Lifestyle, including the perceived need to maintain a high standard of living;
- Personal debt, from credit cards, gambling losses, substance abuse, or poor investments;
- Business losses, caused by inflation, high interest rates, poor economy, or lack of demand.

Employees burdened with financial need may search for ways to relieve that need. Consequently, they should not be put in a position that would provide them with the opportunity to commit fraud. Doing so would be an unwise decision with predictable results.

Rationalization

The third and final element of the fraud triangle is rationalization, the means by which the fraudster psychologically justifies the fraud. Common rationalizations include the following:

- “They owe it to me. I deserve to get paid more.”
- “I’m only borrowing the money. I’ll pay it back.”
- “Nobody will miss it. The company can afford it.”
- “Everyone does it. I’m not hurting anyone.”

Whatever a person’s reason is for fraudulent activity, it is not considered acceptable behavior and will be dealt with seriously by Institute management.

Remember, as an employee of Rochester Institute of Technology, you have stewardship responsibility for safeguarding Institute assets under your purview.



Control of the Quarter

IACA Newsletter – Control of the Quarter

In the last newsletter, we talked about **segregation of duties**, a key internal control. In this issue, we'll discuss **mitigating** or **compensating** controls – controls that must be established when duties are incompatible or can't be fully segregated.

There are four general categories of duties that require different employees to perform each function including **authorization, custody, record keeping** and **reconciliation**. In other words, no employee should have control of more than one of these responsibilities.

When these functions can't be fully segregated, a department must establish additional procedures designed specifically to reduce the risk of errors or irregularities. For example, good segregation of duties does not exist when an employee is responsible for purchasing small dollar items for the department on his/her procurement card AND for reconciling the monthly department statement. An inappropriate purchase by the employee could go undetected unless a mitigating control is established.

If it's not possible for the department to segregate these incompatible duties, implementation of a mitigating control is necessary. For example, the department head should not only review the employee's p-card statement, he/she should also review and approve the monthly department statement reconciliation with the employee. This is an example of an additional procedure designed to reduce the risk of errors or irregularities.

~ Controller's Office



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:

November 16th, 2006
9:30 AM - 12:00 PM
Location: CIMS 2140

December 20th, 2006
1:30 PM - 4:00 PM
Location: CIMS 2140

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

Sign up at the CPD website
<http://finweb.rit.edu/cpd/topics/carestraining.html>

MY TWO CENTS

As I was contemplating what to write about for this section of the QQ, I started thinking about what I owed RIT as my employer. Other than competently performing my job function and being a supportive co-worker, I searched for that word, idea, or concept that was simple, yet all consuming. Well, the word I decided on was **Stewardship --- being a good steward**. Being a good steward can cover so many aspects of our employment experience. We should strive to be good stewards of:

- RIT assets and resources
- RIT's reputation and good name
- Our particular department's mission and purpose
- Our student's RIT experience

That's it—Stewardship! One simple word that has so many applications.

As the university's internal auditor, I believe that we need to challenge ourselves to always be good stewards of our students' tuition dollars, our donors' gifts, and our sponsors' funds. The next time you spend RIT funds, consider these thoughts:

- Is this purchase really necessary?
- Is the "Cadillac" version required or will a "Chevy" get the job done?
- RIT funds are to be used for RIT purposes only.
- It is your responsibility as an employee to be a good steward.

These thoughts are not remarkable, but rather common sense on the one hand, and can be something forgotten in the fast-paced work day on the other.

At the end of the day, it's all about doing the right thing.

~ Steven M. Morse, Executive Director



Ask the Auditor ~

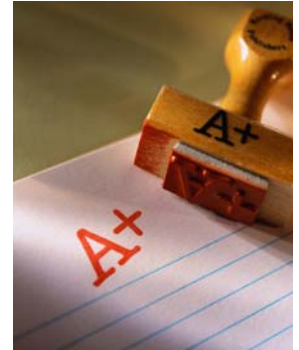
Submit a question to the IACA webpage <http://finweb.rit.edu/iaca/forms/ask/> by 12/1/06. If your question is chosen for publication in our newsletter, you will receive a prize worth \$15.

Pop Quiz

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

Question: The most common method employees use to steal cash from an organization is...

- A. Fraudulently billing for goods or services
- B. Skimming money before it is entered into the books and records
- C. Collusion between bookkeepers and cashiers
- D. None of the above



See our Q&A webpage to post your answer:

<http://finweb.rit.edu/iaca/forms/quiz/>.

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

- Congratulations to Ben Woelk of Risk Management & Safety Services for being the first reader to correctly answer the June issue Pop Quiz question.

The question and the correct answer for June:

“The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets is called:”

- A. Occupational fraud

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Fraud Facts

Fraud affects organizations of all shapes and sizes. In the *Report to the Nation on Occupational Fraud and Abuse*, published by the Association of Certified Fraud Examiners, it was reported that small businesses are the most vulnerable to occupational fraud and abuse. The average scheme in a small business causes \$127,500 in losses. The average scheme in the largest companies costs \$97,000. The average fraud scheme lasted 18 months.