

Open Minds: Internal Audit, Internal Controls, and Fraud and Abuse

Protect the Pirate Treasure!!

Office of Internal Audit and Management
Advisory Services



Who are You?

- Academic departments
- Clinical staff
- Administrative areas
- Other

Do you...

- Supervise employees?
- Use or reconcile a ProCard?
- Are you a Kronos Super Admin?
- Work in academic departments?
- Manage state or grant funds?
- Process travel?

Agenda

- Internal Audit
- Internal Controls
- Fraud and Abuse
- “Stuff happens” even at ECU



Who are we?

- An independent, objective team that reports to the Chancellor and BOT
- Mission: **Enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.**

Audit Services

- Operational Audits
- Compliance Audits
- Information Technology Audits
- Investigative Audits / University Hotline
- Financial Audits
- Assistance to the Office of the State Auditor
- Liaison with outside auditors
- Consultations/Advisory Services

Internal Controls

- Achieve goals
- Carry out management directives
- Reduce unpleasant surprises
- Enhance the reliability of information
- Promote effectiveness and efficiency of operations
- Safeguard assets (including our reputation)
- Comply with rules and regulations

You are the

First Line of

Defense



Internal Control Resources

- For more information, visit our website to review the *East Carolina University Internal Control Manual* or contact our office

Security of Assets

- **Physically control access** to your department's valuable assets – computers, iPads, mobile devices, cameras, other equipment, and gift cards
- Maintain a departmental **inventory**, and **periodically review** to ensure all assets are on hand

Protection of Sensitive Data

- What **data** do we have?
- Where is it **stored**?
- Is it allowed to be there? (CIO and data stewards)
- Who has **access** and do they really need it?
- Is it **encrypted/secured**?
- Do we follow good password practices?

Segregation of Duties

- **Functions are separated** so that no one person has control over all parts of a transaction
- Have at least “two sets of eyes” look at a transaction
- Separate receipt, deposit, and reconciliation

Cash Management

- Comply with the ***University Cash Management Plan***
- Issue a pre-numbered receipt for all payments received
- Ensure that a person who is not involved in the collection process reconciles the collection records with the Banner deposit information
- **Physically safeguard** cash, checks, and credit card information

Transaction Review and Approval

- In a position to know whether or not the transactions are related to **legitimate University business**
- Have the authority to disapprove or question specific expenses
- Ensure a **valid business purpose** is documented
- Monthly review of transactions and accounts
- **ASK QUESTIONS!!**

Reconciliations

- Departmental account reconciliation is a comparison of a **department's monthly financial reports** to supporting documentation which is retained in the department
- Be sure to properly segregate duties
 - The reconciliation should have documented review and approval by someone other than the preparer

Policies, Regulations, Rules (PRRs) and Standard Operating Procedures

- It is a good business practice to have PRRs and **standard operating procedures** to guide actions of the department or unit.
- Written PRRs and standard operating procedures increase **efficiency**, **reduce errors**, and make **training** of new personnel **easier** and **faster**.

Timekeeping and Leave

- Ensure accurate and reliable reporting of time and leave balances
 - Have **documented procedures** outlining the timekeeping process
 - Record time **daily**
 - All time entry submitted should have **supervisory approval**
 - The approver should have **actual knowledge** of the employee's work time and should be **able to validate the accuracy** of the time reported by the employee

Fraud and Abuse

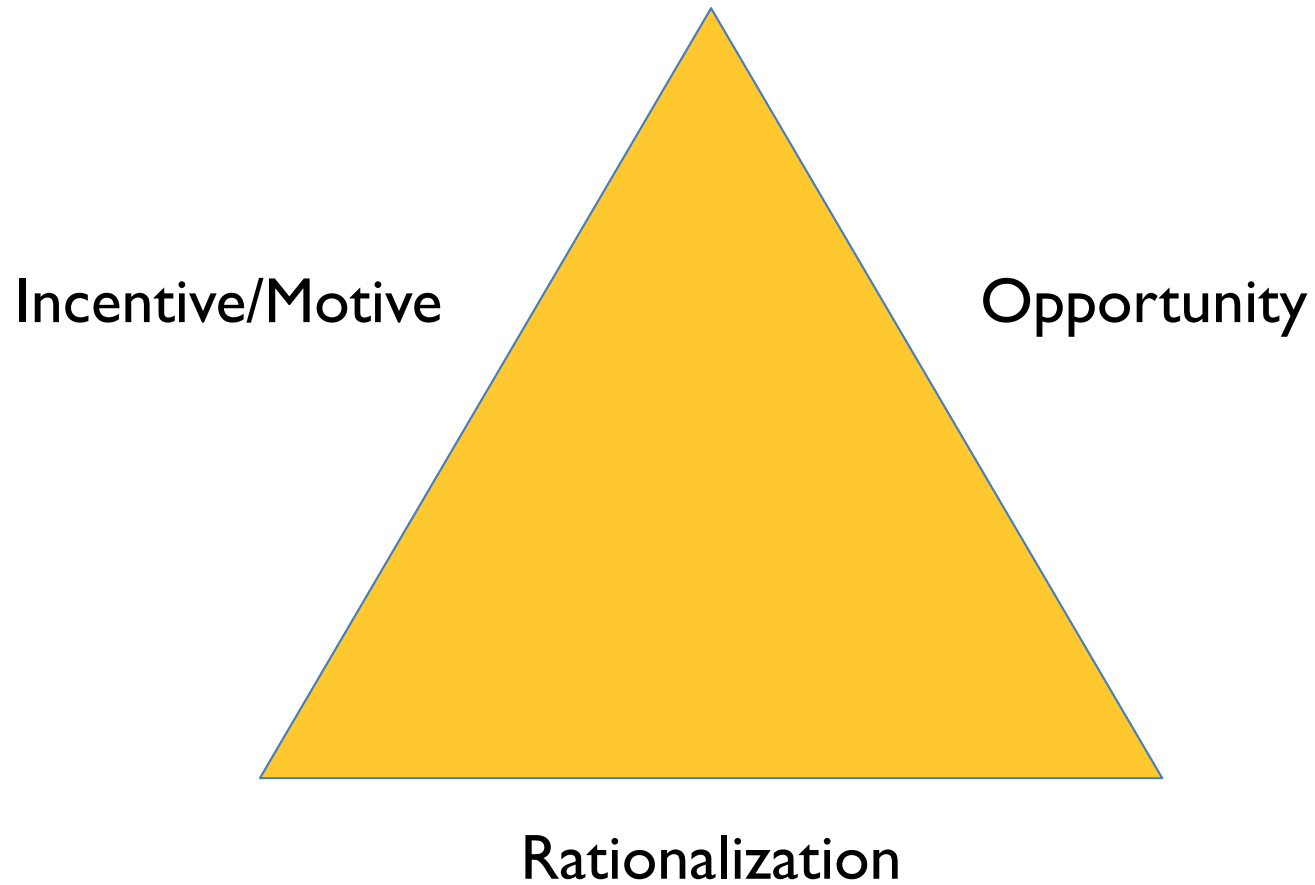
Fraud and Abuse

- Occupational Fraud:
 - The use of one's **occupation** for **personal enrichment** through the **deliberate** misuse or misapplication of the employing organization's resources or assets.

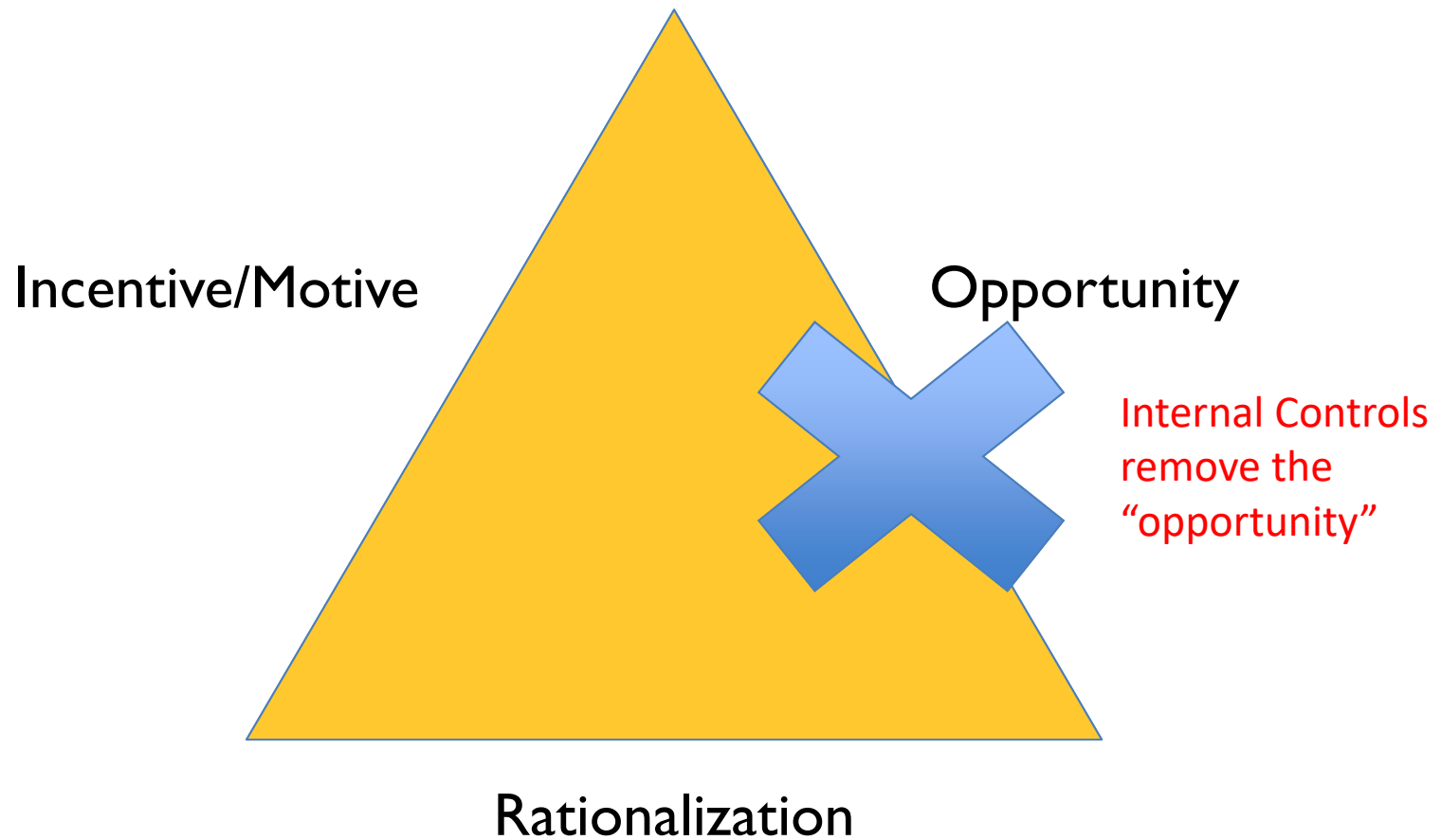
Fraud and Abuse

- FRAUD = the “theft” of assets
- ABUSE = the “misuse” of assets

Fraud and Abuse



Fraud and Abuse



Red Flags of Fraud

- Internal control weaknesses
- Existing controls are not enforced
- Analytical or accounting anomalies
- Employee's change in lifestyle or behavior

Fraud Prevention

- Fraud occurs less frequently when employees:
 - Have positive feelings about an organization
 - Have a feeling of ownership
 - Don't feel abused, threatened or ignored
- Eliminate opportunities for fraud:
 - Have good internal controls
 - Monitor employees
 - Provide clear expectations
 - Be proactive

Fraud Detection

- Most frauds start small and if not detected, continue to get larger and larger
- Fraud is rarely obvious
- **Employees and supervisors** identify most frauds or symptoms of fraud
- If you are aware of any instances of fraud, waste, or abuse, or you have any other concerns regarding these issues please call us at 252.328.9027 or complete an anonymous “hotline” form on our website (<https://audit.ecu.edu/>)

Investigative Audits

- Receive concerns
- Investigate
- Resolution
 - Recommend to management specific activities to address internal control weaknesses
 - Collect debt owed
 - Referral to Human Resources for personnel action
 - Report to the N.C. State Bureau of Investigation (SBI)

Commonly Seen at the University

- Misuse of University resources
- Misuse of time or False reporting of time
- Theft of University assets
- Personal purchases with University funds
- Improper employee reimbursements
- Failure to report secondary employment
- Failure to disclose Conflict of Interest/External Professional Activities for Pay

Key Takeaways

- Internal Audit is here to partner with you
- We are all responsible for protecting ECU's assets and reputation
- “Stuff” really does happen
- Internal Controls can help prevent or detect “stuff”