Learning Objectives

- Understand Internal Audit’s mission and responsibility
- Understand the audit process
- Understand common audit areas
- Understand common audit findings
- Understand IT risks and findings
- Identify good internal controls and techniques
- Understand fraud indicators and reporting methods
Mission Statement

“To assist University units in effectively discharging their duties while ensuring proper control over University assets.”
Internal Auditor Approach

- We act as an independent objective internal assurance and consulting function designed to add value and improve the University’s operations.

- We are here to assist you and help protect our University as a whole.

- We try to view audit projects as a partnership with you and your department maintaining a relationship characterized by respect, helpfulness, and collaboration.

- We attempt to be as “transparent” as possible.
Roles of IA & Management

University Management

- Develops and enforces effective internal controls
- **Responsible for monitoring** compliance with federal, state, or applicable laws
- **Responsible for setting** policies and procedures
- **RESPONSIBLE FOR MAKING MANAGEMENT DECISIONS**

Internal Audit

- **Evaluates and provides reasonable assurance that internal controls** are functioning as intended
- **Evaluates compliance** with federal, state, or other applicable laws
- **Evaluates compliance** with MSU internal policies
- **CANNOT MAKE MANAGEMENT DECISIONS**
Audit Plan Development/Approval

“C’mon, why us???”

University-wide risk assessment
• Annual risk discussions - existing/emerging issues
• Special Project Time - investigations/special requests
• Cyclical Audits - inherent risks of your business
  • Likelihood (probability of occurrence)
  • Impact (effect on MSU/your unit)

Approval
• President
• Audit Committee
Stage 1 - Planning

Audit engagement
- Engagement letter
- Preliminary information request

Opening meeting
- Project overview given to the management group
- Designate a primary contact person
- Official project start date

Inquiry of management & staff
- Interviews & Internal Control Questionnaires (ICQ)
- Tours

Scope definition
- Risk assessment
- Twelve-month “snap-shot”
Stage 2 - Fieldwork & Documentation

- Observations of processes & procedures
  - Observing critical processes or activities

- Sampling & testing
  - Select specific transactions, events or activities for testing
  - Collaboration with unit staff

- Verification of statements made
  - Sample the verbal statements made during the planning process to verify accuracy
Stage 3 - Issue Discovery & Validation

- Risk exposure discovery & evaluation
  - Risk identification process based on ICQs & fieldwork
  - Risk validation & mitigating controls discussion with personnel

- Risk exposure presentation to management
  - Discussion with management regarding identified risk & potential mitigating controls

- Management solution development
  - Risk mitigation vs. risk acceptance
  - Risk considerations in strategic planning
Stage 4 - Reporting

Draft report development & distribution
- Based on levels of identified risk
- Grade assignment is discussed
- Closing meeting discussion
- Limited draft distribution

Management response opportunity
- Due 30 days from issuance of draft report
- Short description of management’s action plan and timeline to address identified risk

Final report distribution
- Standard executive distribution list with additional unit requests
- Management responses included
Stage 5 - Issue Tracking

Post audit review & follow up
- Three (3) to six (6) months after final report is issued
- Review status of management response
- Written status report issued to final audit report distribution list

Periodic status updates
- Potential second post audit review
- Otherwise, we may request periodic progress updates
Common Audit Areas & Findings
Common Audit Areas

- Understanding internal controls
  - Segregation of duties; reviews; reconciliations

- Testing significant activity including:
  - Cash receipts/Accounts receivable
  - Expenditures (including payroll, travel, endowments/scholarships)
  - Procurement cards
  - Grant activity including effort reporting
  - Equipment inventory
  - Resale inventory

- Significant contracts

- Sensitive data

- Conflict of Interest/Outside work for pay
Common Findings

Non-compliance with:
- MSU Manual of Business Procedures (MBP)
- Federal/State regulations

Lack of segregation of duties – payroll, expenditures, receipting – fiscal officer role/HR roles

Procurement cards not used or reconciled according to the Purchasing Card (Pcard) Users Manual

Travel not authorized appropriately

Travel voucher not completed according to Section 70 of the MBP
Common Findings

- Contracts signed by someone without signature authority
- Record retention - sensitive data stored in department
- Conflict of Interest not disclosed
- Outside work for pay policy not followed
- Timeliness of cash deposits
Information Technology Auditing
Information Technology (IT) Auditing:

Defined as any audit that encompasses the review and evaluation of all aspects (or any portion) of automated information processing systems, including related non-automated processes, and the interfaces between them.
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Basically, a review of the flow of data through an IT infrastructure and the evaluation of the controls that help protect it...
**“C.I.A.” Core Control Concept**

**Confidentiality**
- Keeping sensitive data a secret from those without a need-to-know.
- Opposing Force: *Disclosure* (Fines, Legal Action, Loss of Public Trust)

**Integrity**
- Protecting data against unauthorized modifications.
- Opposing Force: *Alteration* (Inaccurate Info, Financial Loss, Waste of Resources)

**Availability**
- Ensuring data is readily accessible by authorized users.
- Opposing Force: *Destruction* (Waste of Resources, Financial Loss)
IT Risks

IT Infrastructure Risks:

- Sensitive information
- Electronic monetary transaction processes (PCI, ACH, etc.)
- System access restrictions and enforcement
- Weak password policies
- Overall network security controls
Typical IT Audit Findings

- Data Backup Procedures
- Business Continuity Plan
- Disaster Recovery Plan
- Access Controls
- Security Practices
IT Audit Sensitive Data Focus

Identified as a key risk to the University.

- *Examples:* SSN, Payment Card Data, Student Info., Medical Records, etc.
- *Liabilities of Disclosure:* Financial Loss, Legal Action, Loss of Public Trust, etc.

**MSU Institutional Data Policy (IDP)**

- Took effect on January 1st, 2011.
- Defines minimum requirements for securing University institutional data.
- Applies to all University business and academic units and all MSU employees.
- Visit the MSU Information Security webpage for more information.
  - [https://secureit.msu.edu/](https://secureit.msu.edu/)
How to Reduce Risk
Characteristics of a Good Internal Control Environment

Tone at the Top
- Management’s clear commitment to a culture of ethics, integrity and compliance

Adequate management oversight

Proper authorization of transactions and activities

Adequate documents and records – original receipts scanned

Physical safeguards – restricted access

Segregation of duties

Account activity is reviewed monthly and support for transactions is maintained
Fraud Indicators

Pressure

Opportunity

Rationalization

The Fraud Triangle
Pressures

- High personal debt
- Poor credit
- Unexpected financial needs
- Addictions (gambling, drugs)
- Other Pressures
Opportunity

- Lack or circumvention of internal controls
- Past failure to discipline embezzlers
- Management apathy
- Ignorance or incapacity to detect fraud
- Lack of an audit trail
Rationalization

- The organization owes it to me
- I am only borrowing the money
- They can afford it
- I deserve more
- It’s for a good purpose
Methods of Reporting Misconduct

- **MSU Misconduct Hotline**
  - Phone or On-line reporting
  - Concerns reported include:
    - Conflict of Interest
    - Fiscal
    - Medical/HIPAA
    - Privacy
    - Research
    - Safety
    - Any Other Compliance Issue

- **Direct contact with Internal Audit, MSU Police, HR, etc.**

- **Key links:**
  - IA website: [www.msu.edu/~intaudit](http://www.msu.edu/~intaudit)
  - Misconduct Hotline website: [http://misconduct.msu.edu](http://misconduct.msu.edu)
IT'S YOUR CALL

If you have a concern about misconduct, don't keep it to yourself. Discuss it with a supervisor, or contact the misconduct hotline online or by phone. Anonymous reports can be made 24 hours a day, seven days a week.

Report misconduct related to:
- Athletics
- Conflicts of interest
- Discrimination/harassment
- Employment
- Fiscal
- Medical/HIPAA
- Privacy
- Research
- Retaliation
- Safety
Or any other compliance issues that do not fit into these categories

The Misconduct Hotline is not for reporting emergencies. If you need immediate assistance, please dial 9-1-1.

Misconduct Hotline
1-800-763-0764
misconduct.msu.edu

*Descriptions of misconduct types are provided at misconduct.msu.edu
*The MSU Misconduct Hotline is a tool for the MSU community and others to raise concerns regarding misconduct. The University contracts with a private company, The Network, Inc., to provide this reporting service.
Summary of Topics

- Internal audit overview
- Audit process
- Common audit areas and findings
- IT risks and findings
- Internal controls
- Fraud detection and prevention
Key Points for New Administrator

- Supervision – support fiscal officer – be involved
- Assignment of roles – review annually
- Conflict of interest – employment/vendor/time commitment
- Good internal controls – common sense
  - segregation of duties
  - approvals
  - reconciliations – pcards/general ledger/review transactions monthly
  - travel requirements/authorizations (section 70 Manual of Business Procedures
    https://ctlr.msu.edu/combp/mbp70EBS.aspx
  - Professional service contracts
    https://usd.msu.edu/purchasing/purchase-orders/professional-services-contract/index.html
- Ethical decisions
- Maintain adequate documentation – scanned copies
- Compensation time – policy/documentation
- Address performance issues timely
Questions
Thank You!

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Internal Audit Main Phone:
(517) 355-5030

MSU Misconduct Hotline:
1-800-763-0764

Please Visit Our Website For More Information:
www.msu.edu/~intaudit