

Internal Audit

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Internal Audit

Marilyn K. Tarrant, CPA, CHC
Executive Director, Internal Audit



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*



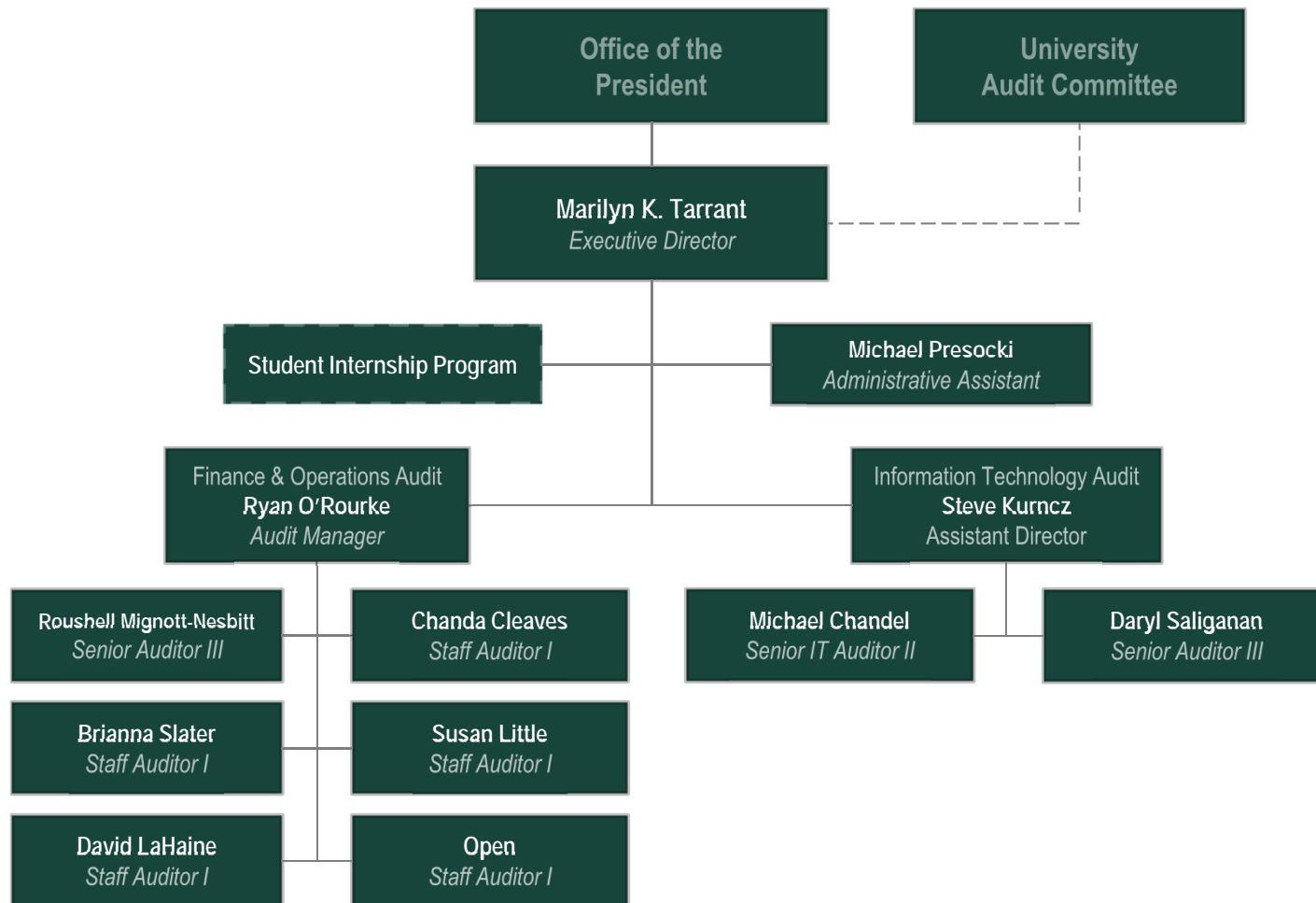


Mission Statement

"To assist University units in effectively discharging their duties while ensuring proper control over University assets."



Organization of Internal Audit





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

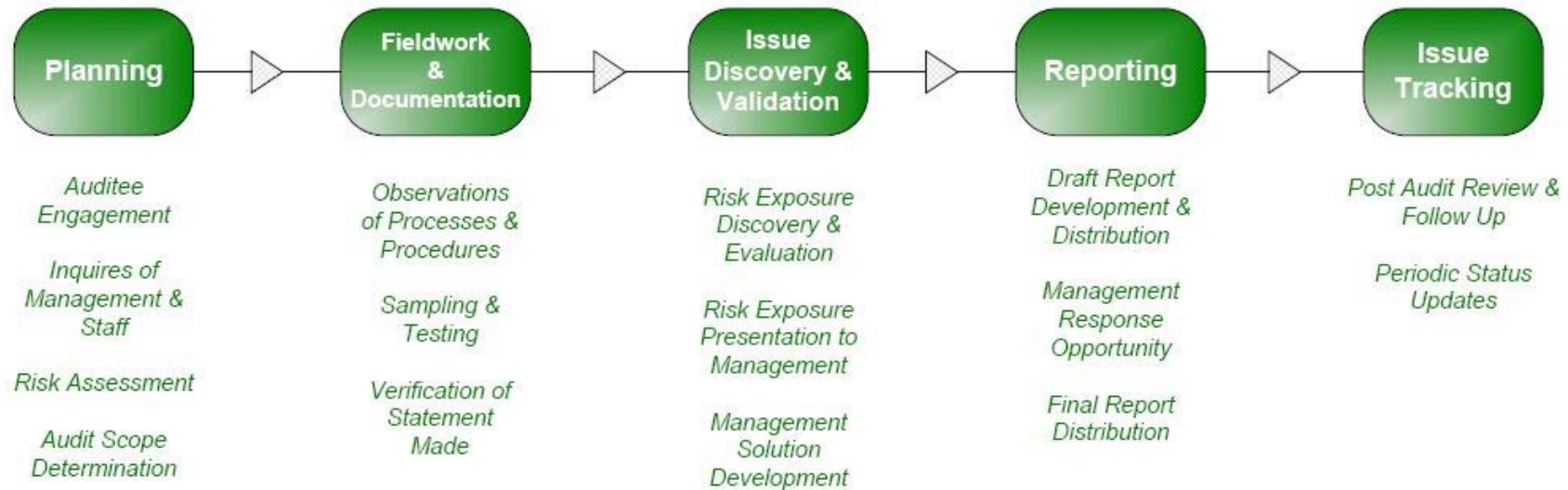
- President
- Audit Committee





Audit Process

Typical Stages of an Internal Audit Review





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

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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

A photograph of the Michigan State University campus, featuring a prominent brick building with a tall, pointed tower on the left. The building is surrounded by dense green trees. In the background, more campus buildings are visible on a hill. The entire image has a uniform green tint.

Information Technology Auditing

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Formal Definition

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.



In-Formal Definition

Information Technology (IT) Auditing:

Definition: IT auditing encompasses the review of an organization's (or any portion) of its information processing systems, including automated processes, and the interfaces between them.



Say What?!?!...

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

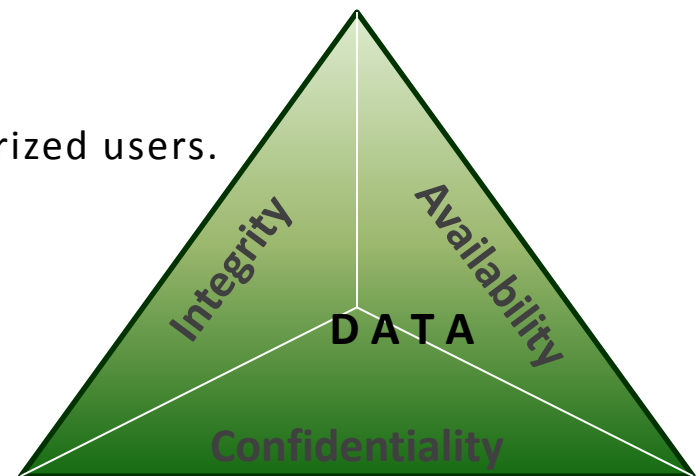
- Keeping sensitive data a secret from those without a need-to-know.
- Opposing Force: *Disclosure* (Fines, Legal Action, Loss of Public Trust)

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)



The C.I.A. Triad



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/>



How to Reduce Risk

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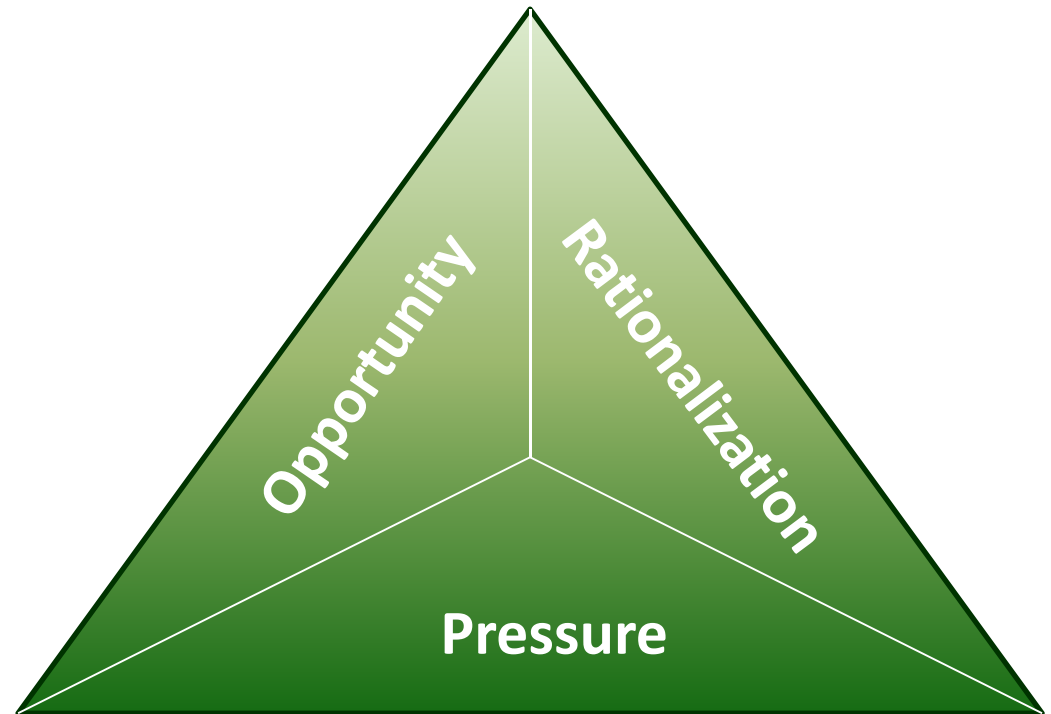
Characteristics of a Good Internal Control Environment

- 🏛️ 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
- Misconduct Hotline website: <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

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*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://ctrl.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!

Marilyn K. Tarrant

Executive Director

Email: marilynt@msu.edu

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

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