

2016 BRINGING ADMINISTRATORS TOGETHER CONFERENCE

Internal Controls and Fraud Prevention

UIC UNIVERSITY OF ILLINOIS
AT CHICAGO

UIC

Lincoln Hall

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Workshop Presenters

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Topics

- Internal Controls
- Implications and real life example
- Fraud
- Implications and real life example
- Checklist(s)

– 742 to 75 to 33



<http://www.ioc.state.il.us/comptroller/assets/File/InternalControlReviewChecklist.pdf>

<https://www.obfs.uillinois.edu/accounting-financial-reporting/fciaa/fiscal-control-internal-auditing-act-certification/>

A Word from our Sponsors Please ...

- Turn off cell phones.
- Avoid side conversations.
- Ask questions at any time.
- Sign the attendance roster.
- Complete the evaluation at the end of the workshop.

What is Internal Control

- A process within an organization designed to provide **reasonable assurance**:
 1. That assets (including people) are safeguarded.
 2. That information is reliable, accurate and timely.
 3. Resources are used economically and efficiently.
 4. Transactions are compliant with policies, plans, procedures, laws, regulations, and contracts.
 5. That overall established objectives and goals are met.
- Intended to prevent errors or irregularities, identify problems, and ensure that corrective action is taken.

Internal Controls: Process

- Different types of controls can be designed to work at varying points within operational, financial, governance, or compliance processes

- Components:

✿ Control Environment

✿ Risk Assessment

✿ Monitoring

✿ Control Activities

✿ Information and Communication

Goal: Reasonable assurance

Types of Internal Controls

- Directive
- Preventive
- Detective
- Corrective

*Compensating * Mitigating*

What is Risk Assessment?

- Identification of risk factors
 - External factors (e.g., new systems, economic changes, rules and regulations)
 - Internal factors (e.g., new personnel, low morale, short staffing)
- Risk Analysis
 - Estimating the significance of the risk (e.g., dollars, reputation)
 - Estimating the likelihood of occurrence
- Assessing options for controls
 - Differing types of controls (e.g., preventive, detective)
 - Resource availability
 - Cost

What To Look For

- Top level performance monitoring
- Direct functional or activity management
- Data processing controls
- Physical controls
- Performance indicators
- Segregation of duties

Limitations of Internal Controls

- Inadequate knowledge of policies or governing regulations.
 - *“I didn’t know that!”*
- Inadequate segregation of duties.
 - *“We trust ‘A’ who does all of those things.”*
- Inappropriate access to assets.
 - *Passwords shared, access not removed, cash not secured, keys passed on to the next employee...*
- Form over substance.
 - *“You mean I’m supposed to do something besides initial/sign it?”*

Limitations of Internal Controls

- Control override.
 - *“I know that’s the policy, but we do it this way.”*
 - *“Just get it done; I don’t care how!”*
- Inherent limitations.
 - *People are people and mistakes happen. You cannot foresee or eliminate all risk.*

Most Common Control Weaknesses

- Segregation of duties
- Reconciliations
 - Completeness
 - Competent and knowledgeably placed staff
- Adequate documentation supporting transactions and/or decisions
- Compliance with University policies for spending based on fund or fund's purpose

Reconciliations

- Revenue completeness
 - Against source data or information
 - According to contractual expectations
 - Comparison to expectations
 - Tie to rate evaluations
- Financial statement review
 - Completeness
 - Comparison to expectations
 - Investigation of variances from expectations

Segregation

- Critical review of permissions (what *can* one do) as well as actual job responsibilities (what does one *actually* do)
- Consider operational responsibilities as well as financial process responsibilities
- Overrides are red flags – defeats good segregation

A real life example

Fraud Diamond



Beyond the Fraud Triangle, Enhancing Deterrence of Economic Crimes,
Jack W. Dorminey, A. Scott Fleming, Mary-Jo Kranacher, Richard A.
Riley Jr, Association Fraud Magazine, September/October 2011

Most Common Fraud Areas

- Expenditure reimbursement (arranged travel, TEM)
- Equipment
- Cash (incoming, petty cash, and change funds)
- Payroll (hourly, vacation, and sick leave)
- P-Card/T-Card

Actual Cases

- Unauthorized P-card transactions
 - Reconciled and within transaction limits
 - Reviewed by PCARD office but not flagged
- Forged Miscellaneous vouchers
 - Blind acceptance of vouchers at POS
 - Delayed transaction posting
- Commingling of ICR funds
 - False reports
- Lack resources

Changes

- More resources available
- IBUY as main purchasing method
- Centralized equipment purchasing
- Independent reporting from central business office in addition to department/unit generated reports
- Elimination of miscellaneous voucher
- Campus
 - Department head training
 - Limitation on number of P-cards

What's My Action Plan

- Understand Policy

OBFS Non-OBFS Policies-Reporting Fraud or Misconduct, Whistleblower Protection, and Investigations

The purpose of this policy is:

- to define employee and management responsibility for reporting fraud, potential or actual, or misconduct and to establish procedures for addressing wrongful conduct; and
- to protect any employee who engages in good faith disclosure of alleged wrongful conduct to a designated University official or public body.

- Contact authorities

- University Ethics
- Office of University Audits
- University Police
- Human resource offices
- Legal Counsel

We work together

Successful Business Officers

- Prioritize training for themselves and their staff
- Embraced and aggressively use business objects or other effective electronic management and reporting tools
- Developed a network of resources with varied participants
- Often seek advice and perspectives and create a culture of questioning
- Confidence to challenge a decision/action they feel is not correct, unethical, or inefficient and receive feedback on decisions with open minds
- Effectively utilize their resources including unit heads and department leaders
- Selective delegation of roles to ensure that they have a balanced handle on the forest and the trees
- Recognize the importance of the control environment
- Work carefully to craft and/or create a system that provides for one-on-one communications with faculty for effective “training”.

Questions / Concerns?