Protect the Pirate Treasure!!

Internal Audit, Internal Controls, and Fraud and Abuse

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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

• 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

Incentive/Motive Opportunity

Rationalization

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 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

Leave Time Not Taken for Work Days Missed

• Employee did not work 132.5 days and was not charged leave time, equivalent to approximately $112,000 over a five year period. The employee engaged in external professional activities for pay and used University resources for tasks related to the external activities.
• How did this happen?
  – Employee did not disclose the external activities for pay and there was a lack of supervisor oversight.
• What was the outcome?
  – Employee was required to pay back the University and take a reduction in leave.

What would you have done differently?
What would you have done differently?

- Follow University policy
- Management Oversight
  - 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
- Ask questions and report concerns

Submission of Inaccurate Work Hours in Kronos

- Students or FT employees clocking in and out from home/elsewhere without permission and without the knowledge of their supervisors. A group of employees were overpaid by a total of $15,440 for the hours that they were clocked in but not working.
- **How did this happen?**
  - Supervisors were not monitoring the employees' time or punch location in Kronos.
- **What was the outcome?**
  - Employees were required to repay the overpayment.

What would you have done differently?
What would you have done differently?

- Follow University policy
  - Have documented procedures outlining the timekeeping process
- Management Oversight
  - 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
  - Run reports in Kronos to monitor the punch location
- Ask questions and report concerns

Duplicate and/or Improper Travel Reimbursement

- The employee invoiced an external entity for travel expenses and submitted and was reimbursed by the University for the same expenses totaling over $9,600. In addition, the University reimbursed the employee or directly paid expenses for additional travel related to their external professional activities for pay totaling over $14,000.
- How did this happen?
  - The employee failed to report the external professional activities for pay and violated University policies and a lack of management oversight.
- What was the outcome?
  - The employee was required to repay over $24,000.
What would you have done differently?

- Follow University policy
  - Ensure potential conflicts of interest and external activities for pay are accurately documented, approved and managed
- Management Oversight
  - 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
- Ensure there is a business-related reason and supporting documentation for travel
- Ask questions and report concerns

Former Employee Paid After Departure

- An employee was overpaid by approximately $21,000 for one year after departure from the University.
- **How did this happen?**
  - The employee’s termination form was never submitted to HR.
- **What was the outcome?**
  - The employee was required to repay over $21,000.

What would you have done differently?
What would you have done differently?

• Follow University policy
  – Implement and follow a departmental formal termination process for all employees
• Management Oversight
  – Monitor employees in Kronos for terminated employees
• Ask questions and report concerns

Used the ProCard for Personal Purchases

• Numerous instances of personal purchases made on the ProCard.
• How did this happen?
  – Failure to follow University policy and lack of oversite by supervisor.
• What was the outcome?
  – Employees were required to repay the funds and are no longer allowed to be cardholders.
What would you have done differently?

- Follow University policy
  - Ensure a valid business purpose is documented
  - Monthly review of transactions and accounts
- Management Oversight
  - Reconciler and approver/supervisor monitor use
- As ProCard holder, have the authority to disapprove or question specific expenses
- Ask questions and report concerns

Items Purchased Were Unaccounted For

- Items with a total cost of over $6,000 were purchased with grant funds and were unable to be located. Several items were shipped to the employee's personal residence, many items were purchased directly by the employee and receipts were submitted for reimbursement with no reasonable benefit to the program.
- How did this happen?
  - The items purchased were out of the ordinary and could easily be used for personal use. Inventory was not maintained or reconciled, there was no segregation of duties, and a lack of oversight over purchases.
- What was the outcome?
  - The employee was required to pay back the grant.

What would you have done differently?
What would you have done differently?

- Follow University policy
  - Ensure a valid business purpose is documented
  - Monthly review of transactions and accounts
- Keep an inventory of purchases
- Management Oversight
  - Reconciler and approver/supervisor monitor use
- Ask questions and report concerns

Nepotism

- Employee had shared authority for employment decisions related to his/her spouse and it resulted in the spouse earning "extra money" for services not actually performed.
- How did this happen?
  - Employees did not follow University policies and there was no formal written conflict management plan in place.
- What was the outcome?
  - Employee was required to pay back the "extra money" for services not performed.

What would you have done differently?
What would you have done differently?

- Follow University policy
  - Follow the University's Anti-Nepotism policy
  - Enact a formal written conflict management plan if there is an interpersonal relationship that creates an actual or potential conflict of interest.
- Management Oversight
- Ask questions and report concerns

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"

Call us any time. We're here to serve!

328-9027
https://audit.ecu.edu