Indiana University
Internal Audit

Top Ten Audit Issues

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Christine Swafford, CPA, CIA, CISA
Director, Indiana University Internal Audit
Objectives

• Discuss the process of identifying audit issues.
• Learn the elements of audit issues.
• Provide awareness of Top 10 Audit Issues and examples of each with policy/law references.
Top 10 Audit Issues - Key Points in Identification

• Identified top 10 audit issues over past 3 years
• Issues and risk can change over time
• Risks are unique to each unit
• Use of Risk Assessment and Control Evaluation (RACE) Matrix to document risks
• Collaboration between Internal Audit and the fiscal officer/management is the key to addressing issues and implementing action plans
"He must be one of those infernal auditors."
Elements of Audit Issues/Findings

- **Current Condition** - What is the problem? Why is this an issue?
- **Criteria** - What is the expected condition based on policy, law, best practice?
- **Cause** - Why is there a difference between current condition and criteria? What is the ROOT cause?
- **Effect** - What is the risk? What can happen if issues are not corrected?
- **Action Plan** - What can be done to fix the root cause of a problem? What can be done to improve processes?
Example of Audit Finding Elements

Current Condition: Unit employees are not receiving the appropriate revenue training as required by IU policy FIN-TRE-VI-120 Processing Revenue.
Sixteen of 25 (64%) employees reviewed did not have the appropriate revenue processing training and nine out of 19 (47%) employees reviewed did not have the appropriate Security Awareness Education (SAE) training.
Example of Audit Finding Elements

Criteria - Policy FIN-TRE-VI-120 states, “Ensure all full time employees involved in revenue processing or with access to university banking/payment card systems have attended a face to face Treasury revenue processing training session and part time and student hourly employees have either attended the Treasury delivered face to face training or taken the revenue processing tutorial available on the Office of the Treasurer website prior to performing any revenue processing transactions.”

Additionally, the policy states, “Attend ongoing training sessions delivered by Treasury; annual training is required for those involved with processing credit and debit card transactions.”
Example of Audit Finding Elements

Cause –

• We often times will not include the cause for the finding if it could reflect poorly on the audit client or appear as an excuse to the Board of Trustees.

• Cause usually comes down to willful disregard for policies/procedures or lack of knowledge of policies/procedures.

• We will ask a lot of questions in order to determine the ROOT cause of the issue to ensure the action plan will fix the problem.
Example of Audit Finding Elements

Effect/RISK –
Lack of appropriate training prior to processing revenue increases the risk for the loss of university funds.
Example of Audit Finding Elements

Action Plan –

All employees who have not taken the required Revenue training and/ or the SAE training will complete the training. All employees needing training have registered and all training was completed by December 15, 2012.
Top 10 Audit Issues
Audit Issue #10

Lack of Inventory Controls
AUDIT ISSUE #10

• **Current Condition** = Inventory controls don’t exist to control or monitor:
  • Shrinkage
  • Obsolete inventory
  • Accounting for inventory
• **Criteria** = Best Practice; GAAP; Auxiliary SOP
• **Risk** = Lost funds due to theft, spoilage, obsolescence
#10 Lack of Inventory Controls Examples

- A department sells parking passes but does not account for the passes.
- Ideally passes should be pre-numbered and reconciled to sales. Inventory should also be accounted for monthly.
- Would be same situation for any other inventory item, books, prescription drugs, apparel, gifts, metal used in fabrication, etc.
Inventory Controls Policies & SOP

- **Auxiliary Financial Standards FIN-ACC-I-600**
- **Accrual Account FIN-ACC-I-350**
- **Auxiliary Standard Operating Procedures**
AUDIT ISSUE #9

Failure to Comply with Contracts or Agreements
AUDIT ISSUE #9

- Current Condition = Contracts, agreements, and memorandums of understanding are not complied with
- Criteria = Provisions outlined in contract, agreements, memos
- Risk = Fines, penalties, reputation risk, legal risk for breach of contract
Failure to Comply with Contracts or Agreements Examples

• Signing contracts or agreements with no signature authority.
• Purchasing contracts
• Insurance certificates for a special event.
• Memorandums of understanding between IU and third parties
Failure to Comply with Contracts or Agreements - Relevant Policy

• Signature Authority and Delegation FIN-TRE-VI-100

• “No officer, agent, or employee of the University has the authority to sign contracts or other agreements on behalf of the University or any unit, department or subdivision of the University…”
Audit Issue #8

Non-compliance with Purchasing Card Guidelines
AUDIT ISSUE #8

• Current Condition = Purchasing cards used to:
  • Circumvent dollar limits on cards by ‘stacking’ transactions
  • Purchase unallowable items
  • Purchase items which were available in EPIC

• Criteria = P-card process & restrictions

• Risk = Thousands of dollars could be spent before being detected because transactions are not pre-approved; theft
Non-compliance with P-card Guidelines Examples

• Stacking! - #1 thing we see in audits
• Unallowable purchases:
  • Cell phones (must purchase and get reimbursed via supplemental pay)
  • Ammunition
  • Furniture
  • Travel or travel related expenses
Non-compliance with P-card Guidelines – Relevant Policy and Guidelines

• http://policies.iu.edu/policies/categories/financial/purchasing/FIN-PUR-20.0-university-procurement-contracts.shtml

• http://www.indiana.edu/~purchase/pcard/pcard.shtml
AUDIT ISSUE #7

Lack of Procedures to Mitigate Risk
AUDIT ISSUE #7

• Current Condition = Common business processes not followed. Criteria = Financial policy I-470 Internal Controls; best business practice
• Risk = Undetected loss of funds, inefficiencies, theft
Lack of Procedures to Mitigate Risk - Examples

• No segregation of duties for collecting, depositing, and reconciling revenue.
• Reconciliation of accounts (monthly operating statement; credit cards; accounts receivable)
• Accountability for critical documents supporting transactions (revenue transactions, receipts, travel documents, etc.)
Lack of Procedures to Mitigate Risk - Policy

AUDIT ISSUE #6

Non-Compliance with IU Policies and Related Laws
AUDIT ISSUE #6

- Current Condition = Failure to have adequate internal controls to ensure policy compliance:
  - Delegation of signature authority
  - Programs Involving Children
  - Fair Labor Standards Act
  - Conflict of Commitment/Conflict of Interest
  - Donor Intent

- Criteria = IU Policies; Relevant Laws

- Risk = loss of funds; fines and penalties; loss of reputation
Non-Compliance with IU Policies and Related Laws - Examples

- Delegation of signature authority
- Programs Involving Children
- Fair Labor Standards Act
- Conflict of Commitment/Conflict of Interest
- Donor Intent
Non-Compliance with IU Policies and Related Laws – Policies

- [http://policies.iu.edu/index.shtml](http://policies.iu.edu/index.shtml)

- Many of our policies reference or are based on state and federal laws
  - Whistleblower
  - Ghost employment
  - Overtime
"You've been invited to an I.R.S. audit."
AUDIT ISSUE #5

Inadequate IT Physical Security
AUDIT ISSUE #5

• Current Condition = Physical security inadequate.
• Criteria = Management of Institutional Data, IT Policy DM01, Information Security & Privacy Policies, Best Practice
• Risk = Loss of data, loss of equipment, harmed reputation, loss of funds
Inadequate IT Physical Security - Examples

• Access to server room not controlled
• People working in server room
• Lack of fire suppression device
• Location of server room (basement prone to flooding)
Inadequate IT Physical Security - Policy

- [http://policies.iu.edu/policies/categories/information-it/it/IT-12.shtml](http://policies.iu.edu/policies/categories/information-it/it/IT-12.shtml) - IT-12: Security of IT Resources
- DRAFT IT-28: Provisioning of IT Services
- [https://protect.iu.edu/uipo](https://protect.iu.edu/uipo)
- [https://protect.iu.edu/uiso](https://protect.iu.edu/uiso)
AUDIT ISSUE #4

Non-compliance with Revenue Processing Policy
AUDIT ISSUE #4

• Current Condition = Revenue policy VI-120 is not followed. Common violations on next slide.
  • Timely deposits
  • Credit card reconciliation
  • Training provisions
  • Endorsing checks
  • Payment Card Industry Data Security Standards (PCI DSS)

• Criteria = Processing Revenue Policy VI-120
• Risk = Theft, lost revenue, fines/penalties, reputational risk
Non-compliance with Revenue Processing Policy - Examples

- Timely deposits not made/
- Credit card reconciliation not performed daily.
- Training provisions not met.
- Checks are not endorsed immediately upon receipt.
- Payment Card Industry Data Security Standards (PCI DSS) are not met.
Non-compliance with Revenue Processing Policy - Policy


• This is a long policy but all of it is important!
AUDIT ISSUE #3

Failure to Pay Employees Accurately
AUDIT ISSUE #3

• Current Condition = Employees not paid accurately
  - Paid too much or not enough
  - ePTO adjustments for Absent without pay
  - Paid for not working (ghost employment)

• Criteria = IU must pay for time worked; must not pay for time not worked
  - Fair Labor Standards Act
  - Department of Labor
  - state law
  - IU policy MUST pay employees for time worked; must NOT pay employees if they are not working (ghost employment)

• Risk = Fines/penalties; low employee morale; reputation
Failure to Pay Employees Accurately – Examples and Relevant Policy/Law

Examples:
• Paid too much or not enough
• ePTO adjustments for Absent without pay
• Paid for not working (ghost employment)
• IU policy MUST pay employees for time worked; must NOT pay employees if they are not working (ghost employment)

Policy/Law:
• HR and Payroll policies
• Fair Labor Standards Act
• Indiana Department of Labor
AUDIT ISSUE #2

Inadequate IT Logical Security
AUDIT ISSUE #2

- Current Condition = Policy IT-12, Security of IT Resources is not followed, creating weaknesses in logical security.
- Criteria = Policy IT-12 and best practices
- Risk =
  - Security breach/lost data
  - Lost dollars
  - Reputational risk
  - Legal issues
Inadequate IT Logical Security - Examples

- Vulnerability scans
- Patch management issues
- Administrative rights
- Lack of disaster recovery plan/business continuity plan
- No review of system logs
- Backups on off site
- Failing to encrypt data
- Anti-virus scans not performed
Inadequate IT Logical Security - Policy

- [http://policies.iu.edu/policies/categories/information-it/it/IT-12.shtml](http://policies.iu.edu/policies/categories/information-it/it/IT-12.shtml)
- IT-12: Security of Information Technology Resources
AUDIT ISSUE #1

Failure to Secure Sensitive Data
AUDIT ISSUE #1

- Current Condition = Sensitive data not secured (manual and electronic records)
- Criteria = guidance from Information Security & Privacy Program
- Risk = major fines, reputational risk, financial impact, personal liability, violations of state law
Failure to Secure Sensitive Data - Examples

- HIPAA data
- PHI – protected health information
- Credit card numbers
- Check numbers
- SSN
- FERPA
- BOTH PAPER AND ELECTRONIC
Failure to Secure Sensitive Data – Policy and Guidance

- DM01- Management of Institutional Data

- http://policies.iu.edu/policies/categories/information-it/index.shtml#InformationSecurityandPrivacyProgramISPP = all IT policies

- UISO – when in doubt, call!
What Did We Learn?

• Process of identifying audit issues
• Elements of audit issues (findings)
• Awareness of Top 10 Audit Issues, examples of each with policy/law references
Questions?

Christine Swafford
812-855-0271
crswoff@indiana.edu
Next Topic

What to Expect When You Are Audited

May 22, 2013

Other topics of interest?
WE CAN'T HOLD OUT MUCH LONGER, HAGAR! WHY DON'T YOU TRY TO REASON WITH THEM?

OKAY!

HEY! THIS ISN'T FAIR! WE WERE AUDITED LAST YEAR!