

Internal Controls and Fraud Risks

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Agenda

- Introduction
- Internal Control Framework
- Components of Fraud
- What's Next?

What are Internal Controls?

- The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as:
 - “*a process, effected by an entity’s board of directors, management, and other personnel, designed to provide **reasonable assurance** regarding the achievement of objectives relating to operations, reporting and compliance*”

Internal Control Objectives

- Organizational:
 - Reliable financial reporting
 - Operational effectiveness and efficiency
 - Compliance with laws and regulations
- Transactional:
 - Authorization
 - Completeness
 - Accuracy
 - Validity

COSO Framework Components

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities

Control Environment

- The “tone at the top” of the University
- Established by Cornell’s Board of Trustees and senior leadership
- The University demonstrates a commitment to integrity and ethical values
- Organizational structure and HR policies are the most effective means of incorporating these values across the University.

Cornell's Control Environment

- The University demonstrates a commitment to integrity and ethical values
- Management establishes, with board oversight, structures, reporting lines, and appropriate authority and responsibility in the pursuit of objectives
- The University demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives
- The University holds individuals accountable for their internal control responsibilities in the pursuit of objectives

Risk Assessment

- What could go wrong?
- Dynamic and iterative process of identifying and analyzing risks to meeting the University's objectives
- “Risk tolerance” is an important factor:
 - How likely is each risk to occur and how impactful could it potentially be to the University?

Materiality

- The dollar amount at which a reasonable person's judgment would be impacted.
- Defined at both the institutional and unit levels.
- Calculated as a discretionary percentage of either: total operating budget, actual expenses, or actual revenues:
 - What is the unit's level of risk tolerance?
 - What account(s) drive the unit's operations?
 - AA&D vs. Facilities

Cornell University Institutional Risk Inventory (The Macro View)

Strategic

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Governance

- Board Oversight
- Board Performance
- Control Environment
- Institutional Risk Management
- Policies & Procedures
- Social Responsibility

Planning/Resource Allocation

- Affiliates and Partnerships
- Budget Forecasting
- Cost-Benefit of Admin Oversight
- Operating Budget Prep./ Tracking
- Organizational Structure
- Outsourcing Arrangements
- Strategic Planning & Execution
- Tax Planning
- Third Party Relationships

Major Transformation Initiatives

- Measurement & Monitoring
- Personnel Deployment
- Program Planning & Execution
- Program Vision and Direction
- Technology Implementations
- Transition/Change Management

Market Dynamics

- Alumni Relations
- Community/State/Federal Relations
- Competition
- Crisis Communications
- Internal Communications
- Faculty Recruitment & Retention
- Macro-Economic Factors
- Media Relations
- Research Competitiveness
- Social Media
- Socio-Political Issues

Operational

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Alumni Affairs & Development

- Alumni Relations/ Prospect Mgt.
- Annual Fundraising
- Donor Relations
- Marketing & Advertising

Enrollment Management

- Admission Evaluation
- Admission Policies
- Diversity
- Recruitment of Students
- Registration
- Student Financial Services

Instruction:

- Academic Support
- Classroom Technology & Support
- Cornell Tech/Ithaca/WCM Collab
- Curriculum Dev. & Mgt.
- Digital/ Distance Learning
- Program Accreditation

International Operations

- China/ Beijing Center
- India
- Intervention/ Evacuation
- Rome AA&P
- Travel Health, Safety & Security
- Weill Cornell Medicine - Qatar

Student & Campus Life

- Athletics & Recreation
- Dining Services
- Gannett Health Services
- Housing
- Student Activities/Fraternal Orgs
- Well Being & Safety.

Research Administration

- Animal Research & Care
- Cornell Tech/Ithaca/WCM Collab.
- Export Controls
- Grants & Contracts Admin.
- Human Subjects Protection
- Research Quality
- Research Misconduct
- Revenue Management

Information Technology

- Data Center & Systems Continuity
- Data Protection (Level 1/ PCI)
- Internet Outages
- IT Infrastructure
- IT Management & Strategy
- IT Network Security/Access
- IT Policies and Procedures
- IT Investment Level/ Spend
- Third Party Provider Dependencies
- User Help and Training Tools

Human Resources

- Compensation and Benefits
- Competency & Skills
- Faculty Development
- Instructor Evaluation & Tenure
- Succession Planning
- Culture
- Diversity
- Recruiting and Retention
- Staff Development

Supply Chain

- Procurement
- Supplier Selection

Public Safety/Critical Infrastructure

- Continuity of Operations/ Recovery
- Crime Prevention and Response
- Cyber Attack Response Readiness
- Environmental Health & Safety
- Gas, Power, Steam, Water Outages
- Natural Events Readiness/ Response
- Physical Safety
- Terror & Malicious Acts

Physical Assets

- Cash & Checks Handling Safeguards
- Deferred Maintenance
- Inventory Management
- Property Plant & Equipment
- Real Estate Management

Gener

- Personal Injury
- Third Party Property Damage
- Vehicle Use

Legal & Compliance

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Regulatory Compliance

- Conflicts of Interest
- Cost-benefit of Compliance Mgt.
- Debt/ SEC/ Bank Compliance
- Discrimination/Affirmative Action
- Drug & Alcohol Use on Campus
- Fair Labor Standards Act
- International/ activities abroad
- Laboratory and Residential Safety
- Medical Billing Compliance
- Minors on Campus
- Other States' Authorizations for business
- Privacy; cyber-security, data breach
- Research and clinical administration

Ethics & Compliance

- Code of Conduct
- Ethics & Compliance Hotline
- Fraud Prevention & Detection
- Title IX

Legal

- Contract Terms and Conditions
- Intellectual Property
- Litigation/ Liability/Contingent Liabilities
- Record Retention
- Tax Exempt Status
- Federal Taxes
- State (s) Taxes
- International Taxes

Medicine Clinical Practice

- Accreditation & Licensing
- Billing & Collections
- Charge Capture and Coding
- Clinical Workflow/ Integration
- Medical Management
- Medical Malpractice
- NYP Hospital Relations
- Patient Safety
- Payer Contracting
- Pharmacy Management
- Quality of Care
- Quality Reporting (Internal/External)
- Scheduling & Registration
- Weill Cornell Physicians Network

Financial

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Accounting and Reporting

- Accounting Policies & Procedures
- Accounting, Reporting & Disclosure
- Appropriate Designation of Funds
- Billing and Payment Requests
- Budget and Planning
- Financial Reporting Internal Controls
- Gifts Accounting
- Grants Accounting
- Investment Accounting
- Payment Disbursements

Liquidity

- Treasury Management
- Counterparty Risk
- Funding
- Investment Management

Capital / Debt Structure

- Capital Structure
- Debt Covenants
- Debt Ratings
- Interest Rates
- Investor Relations

Investments

- Markets
- Performance
- Valuation

Insurance

- Insurance Policy Limit Adequacy
- Policy Exclusions/Limitations
- Self-insured Retention Levels

4 Domains,
26 Categories,
171 Inherent
Risk Areas

Resulting From e-Surveys and Normalization Process *Alphabetic Order*

Items in *blue font* are the institutional Tier 1 – Top 11 Inherent risk areas

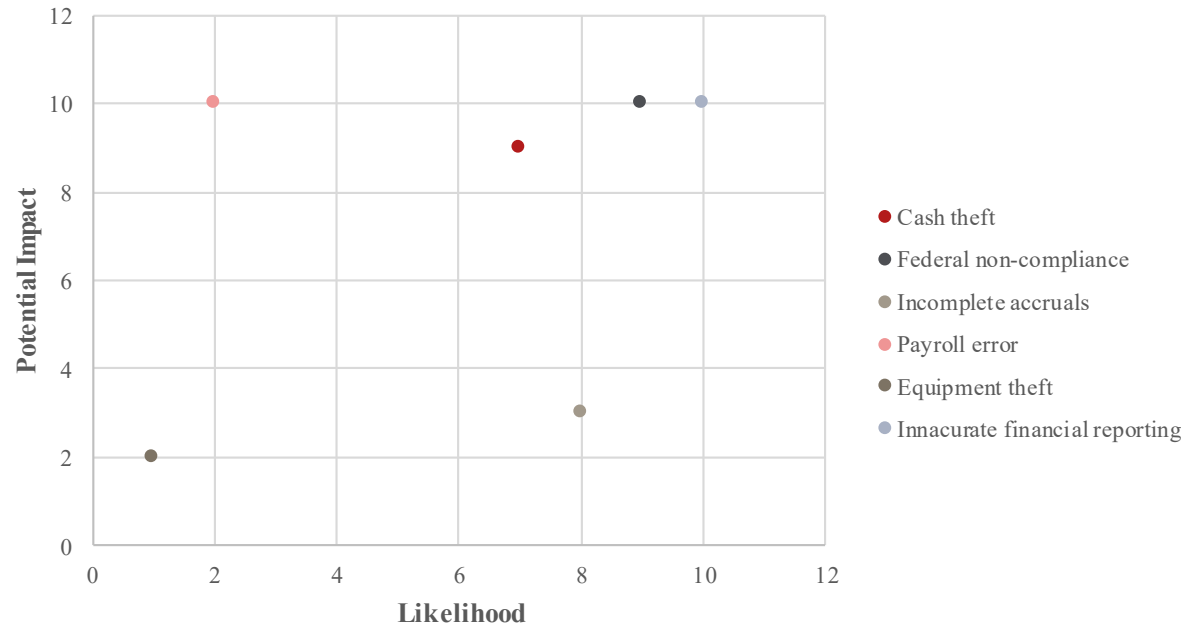
- China/ Beijing Center
- Clinical Practice-Quality of Care & Patient Safety**
- Conflicts of Interest
- Continuity of Business Unit Operations
- Cornell Tech/Ithaca/WCM Collaboration**
- Cyber Security/Data Protection**
- Data Center & IT Systems Continuity
- Debt Ratings
- Deferred Maintenance**
- Digital/ Distance Learning
- Donor Relations
- External Intrusions Into Institutional Decision Making
- Emergency Preparedness, Response, and Recovery**
- Faculty Recruitment & Retention**
- Fed/State Regulatory/Legislative Adverse Action/ Scrutiny
- Institutional Risk Management Program
- International Travel, Health, Safety & Security
- International/ Activities, Business Models, Contracting**
- Investments Performance**
- IT Governance & Strategy
- IT Infrastructure – Internal /3rd Party Cloud Services**
- Laboratory and Residential Safety Compliance
- Medical Billing Compliance
- Policies & Procedures
- Research Enterprise (includes competitiveness)**
- Research Grants & Contracts Administration
- Research Human Subjects Protection
- Staff Recruitment and Retention
- Strategic Fundraising Campaigns
- Strategic Planning & Execution
- Student Activities/Fraternal Organizations
- Student Financial Services
- Student Recruitment
- Student Well Being & Safety
- Technology Transformation Implementations
- Terrorist & Malicious Acts
- Title IX Program/ Sexual Assault**
- Transition/Change Management Capabilities
- Weill Cornell Medicine - Qatar
- Weill Cornell Physicians Network Expansion

Major Transaction Cycles

- Where is most of the activity taking place within each unit?
 - Procure to pay
 - Travel
 - Grants/Contracts
 - Contributions

“Heat Mapping” – Micro View

Where should we be allocating internal control resources?



Control Activities

- Policies and procedures that provide reasonable assurance that control objectives are met and risk responses are carried out.
- Examples of control procedures:
 - Segregation of duties (authorization, recording, and custody)
 - Proper documentation and authorization of transactions
 - Account reconciliations
 - Independent checks on performance
 - Safeguarding of assets of data

Information and Communication

- Communication provides the information needed to carry out day-to-day internal control activities across campus, as well as to provide personnel across the University with an understanding of their internal control responsibilities and their importance to the achievement of objectives.
- Information must be complete, relevant and accurate in order to contribute to an effective internal control environment.

Monitoring

- Internal control environments can only be effective if they are periodically measured for success:
 - Internal audit
 - External audit
 - Management response to deficiencies identified

What Could Go Wrong?

6 Howard Employees Fired for Fraud

By [Grace Bird](#) // March 29, 2018

10 COMMENTS 

Six Howard University employees were fired last year for stealing money from the financial aid department, the president confirmed Wednesday.

An external auditor found that six staffers received grants and tuition remission that exceeded the total cost of attendance and took the difference, Howard president Wayne Frederick announced in a statement. The fraud took place between 2007 and 2016.

Allegations of fraud surfaced this week in an anonymous blog post on *Medium*, which has since been removed. The post claimed the employees misappropriated almost \$1 million.

What Could Go Wrong?

5. Iona College

In March 2011, the former vice president of finance of [Iona College](#) in New York, Marie Thornton, pleaded guilty to embezzling more than \$850,000 (£525,000) by issuing college cheques for her own use, using a college credit card for personal purchases and making false expenses claims.

Ms Thornton, a catholic nun also known as Sister Susie, committed the thefts over a period of 10 years.

4. Vassar College

In April 2011, Arthur Fisher, a project manager at [Vassar College](#) in New York, and his wife Jennifer Fisher, were sent to prison after they created a fictitious construction company and began charging the college for services that had not been performed.

The scheme netted \$1.9 million (£1.2 million) over five years.

What Could Go Wrong?

2. The University of Montana

In 2010, Christine Bitterman, who worked in the Residence Life office at the University of Montana, pleaded guilty to embezzling more than \$300,000 (£186,000) over a period of seven years, the *Missoulian* reported.

She had been stealing student rent payments that had been made in cash.

1. The University of Vermont

In July 2012, Celine Bernier, a former administrative assistant with the University of Vermont, was sent to prison after pleading guilty to depositing university cheques totalling almost \$46,000 (£28,500) into her personal account over a five-year period.

According to the *Burlington Free Press*, the university was tipped off by a letter from Community National Bank that contained a check for \$1,425 payable to UVM Extension - the university's community outreach arm - that had been deposited into Ms Bernier's personal account.

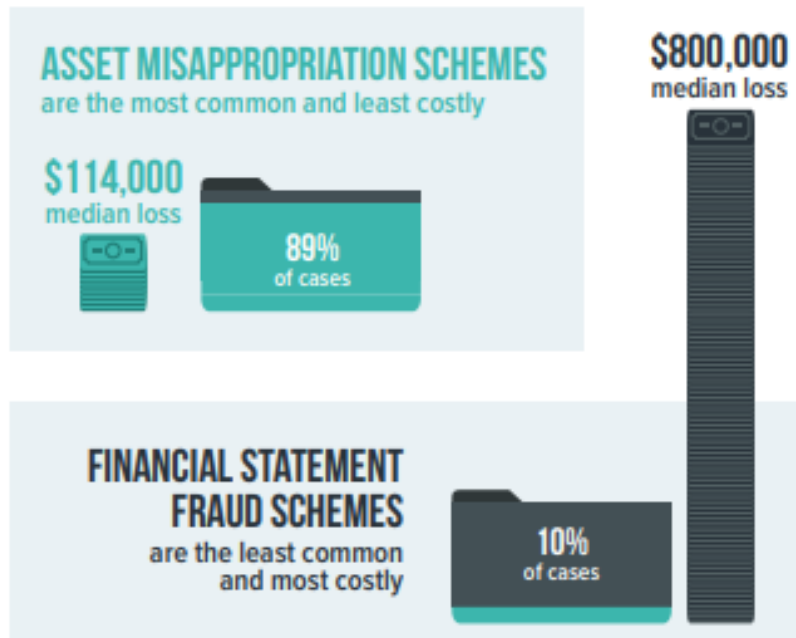
Red Flags

THE FRAUD TRIANGLE



The Fraud Triangle by Donald R. Cressey

How is Fraud Detected?



TIPS are by far the most common initial detection method



EMPLOYEES provide over half of tips, and nearly 1/3 come from **OUTSIDE PARTIES**



ORGANIZATIONS WITH HOTLINES detect fraud by tips more often



Source: ACFE's 2018 Report to the Nation

Why Fraud Occurs

INTERNAL CONTROL WEAKNESSES
WERE RESPONSIBLE FOR NEARLY
HALF OF FRAUDS



ALL 18 ANTI-FRAUD CONTROLS
ANALYZED WERE ASSOCIATED
WITH **LOWER FRAUD LOSSES**
AND **QUICKER DETECTION**



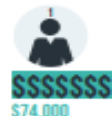
Owners/executives
accounted for
a small percentage
of cases



but caused a
median loss of
\$850,000



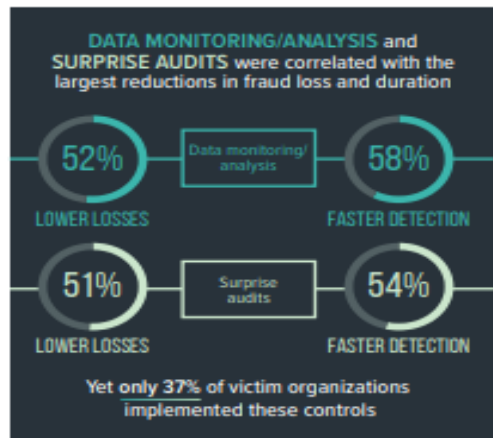
LOSSES CAUSED BY MEN
WERE 75% LARGER
than losses caused by women



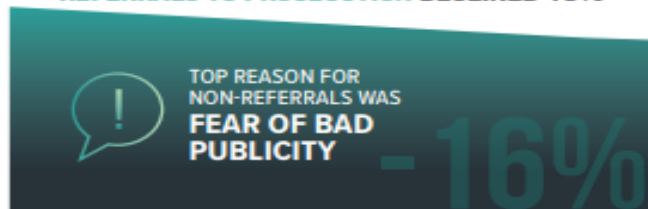
MEDIAN LOSSES
ARE FAR GREATER
when fraudsters
collude



Who's Committing Fraud?



OVER THE PAST 10 YEARS, OCCUPATIONAL FRAUD REFERRALS TO PROSECUTION DECLINED 16%



2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018



A MAJORITY OF THE VICTIMS RECOVERED NOTHING

Source: ACFE's 2018 Report to the Nation

Anti-Fraud Controls

- **The most effective anti-fraud controls:**
 - Code of conduct
 - Proactive data monitoring/analysis
 - Surprise audits
 - External audit of internal controls over financial reporting
 - Management review
 - Whistleblower hotline
 - Internal audit department
 - Fraud training for employees

Source: ACFE's 2018 Report to the Nation

Cornell's Internal Control Objectives

- Strengthen our existing internal control framework
- Assist unit leadership in accepting responsibility for the internal control framework within their units
 - Working with DFA to develop, implement and maintain a unit-specific internal control plan
 - Focus on identifying high-risk areas
 - Utilize heat mapping and materiality to determine where resources should be allocated

Partnership

- Internal Control Policy Committee
- Colleges and Divisions
- Division of Financial Affairs
- University Audit Office

Internal Control Policy Committee

- Establish, review, implement, document, and support the university's internal control framework
- Determine strategies
- Generate Management Representation Letter
- Assist in:
 - Training financial managers and administrators
 - Evaluating controls
 - Making recommendations
 - Monitoring results

Subcommittees

- Policy development
- Risk assessment and materiality analyses in the units
- Unit-specific Internal Control plans and procedure development
- Training Guide
- Templates and tools for evaluating control structure
- Management Representation Letters

Colleges and Divisions Roles and Responsibilities

Analyze transaction cycles and assess the risk that fraud or a **material** financial misstatement could occur

- The risk assessment and heat map process will identify high-risk areas.
- For these areas, we will have a higher level of awareness for the possibility of fraud and/or misstatement.

Division of Financial Affairs – Director of Financial Operations

- Develop internal control policy and framework
- Work with units to perform risk assessments and develop a unit-specific customized Internal Control Plan
- Provide unit training as requested
- Suggest/provide tools/templates

University Audit Office

- Provide input during the development of unit-specific internal control plans (ICP)
- Monitor compliance to the ICP
- Suggest/provide tools/templates

What's Next?

- The overall Internal Control Policy has been drafted and is currently under review.
- Process mapping for DFA is to be completed by 2/28/19.
- DFA will prepare the first unit-specific Internal Control Plan (ICP).
- DFA will then assist units in performing individual risk assessments and unit-specific ICP's.

Questions