



**EMORY**  
UNIVERSITY

## Internal Audit Division

Scott Stevenson  
Chief Audit Officer

## Finance Division

Belva White  
Associate VP/Controller



# AGENDA

- Internal Controls Overview
- Why are Internal Controls Important
- Impact of Fraud on Emory
- Our Responsibilities

# INTERNAL CONTROL - DEFINITION

Internal control is a **process, effected by** an entity's board of directors, management and other personnel, designed to provide **reasonable assurance** regarding the achievement of **objectives**:

- Operations are efficient and effective
- Produce accurate, reliable data for decision making
- Comply with applicable statutes, laws and policies
- Safeguard its assets



# INTERNAL CONTROLS ARE COMMON SENSE

- What do you worry about going wrong?
- What steps have been taken to assure it doesn't?
- How do you know things are under control?



# INTERNAL CONTROLS ARE COMMON SENSE

You use internal control principles in your personal life when you:

- Lock-up valuable belongings
- Keep copies of your tax returns
- Balance your checkbook
- Keep your ATM/debit card PIN number separate from your card
- Make travel plans



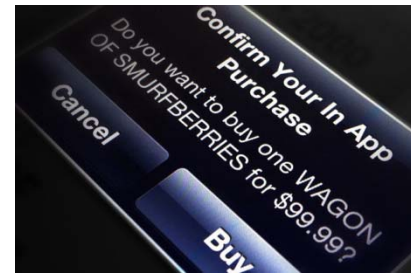
# EMORY'S ETHICAL PRINCIPLES ARE BASED ON INTERNAL CONTROL CONCEPTS

- **Pursuit of knowledge and truth** is the University's reason for existence.
- Members of Emory are expected to strive for the **highest degree of integrity**.
- Members are expected to exercise **wise stewardship** over resources.
- All **conflicts of interest and of commitment are to be properly addressed**, and steps taken to eliminate or manage the conflict.
- Emory seeks to uphold the **dignity** and **rights** of all persons through **fair treatment, honest dealing and respect**.
- Authority figures carry a particular obligation to exercise **care and compassion**.
- Each of us assumes **responsibility for our actions** and will be held **accountable** for them.

[http://www.emory.edu/president/governance/ethical\\_principles.html](http://www.emory.edu/president/governance/ethical_principles.html)

# TYPES OF PRIMARY CONTROLS

- **Directive controls** cause or encourage the occurrence of a desirable event.
  - Policies and procedures
- **Preventive controls** deter the occurrence of unwanted events.
  - Segregation of duties
  - Authorization limits/approvals
  - Security of assets
  - Passwords
- **Detective controls** alert the proper people after an unwanted event. They are effective when detection occurs before material harm occurs.
  - Reconciliations
  - Budget/Actual
  - Edit checks/Control totals
  - Exception reports





# SECONDARY CONTROLS

- **Compensatory controls** may reduce the risk when primary controls are not feasible or ineffective.
  - Supervisory review when segregation of duties is not feasible





# DIRECTIVE CONTROL - EMORY POLICIES

- Standards of Conduct: <http://policies.emory.edu/4.62>
- Conflicts of Interest: <http://policies.emory.edu/4.112> and <http://policies.emory.edu/4.87>
- Code of Business Ethics and Conduct: <http://policies.emory.edu/4.115>
- Ethical Guidelines: <http://policies.emory.edu/2.25>
- Statement of Confidentiality: <http://www.policies.emory.edu/4.79>
- Institutional Fiscal Responsibility Framework: <http://www.policies.emory.edu/2.113%20>
- Fiscal Transactional Roles and Responsibilities: <http://www.policies.emory.edu/2.114>
- Business Purpose Requirements for Use of University Funds: <http://www.policies.emory.edu/2.109%20>
- Approval Requirements for Disbursements <http://www.policies.emory.edu/2.110>
- Business Expense Receipts <http://www.policies.emory.edu/2.111>
- Theft and Other Criminal Incidents: <http://www.policies.emory.edu/4.68%20>
- Employee Gifts and Celebrations: <http://policies.emory.edu/2.5>
- Expense Reimbursement: <http://policies.emory.edu/2.93>
- Business Meals: <http://policies.emory.edu/2.106>
- Unallowable Charges: <http://policies.emory.edu/2.107>

# PREVENT CONTROL - SEGREGATION OF DUTIES

For any given transaction, the following functions should be performed by different employees.



# INHERENT LIMITATIONS OF CONTROLS

- **Internal control, no matter how well designed and operated, provides only reasonable assurance about achievement of the entity's objectives.**
- **Some matters are beyond control; mistakes happen:**
  - Faulty judgment
  - Employee misunderstanding, carelessness or fatigue
  - Management override of controls
  - Collusion
  - Cost of a control should not exceed the benefit derived from it

# CONTROL IN OPERATION

- Reports
  - It is not enough that a report is produced.
  - It must have the right information, someone needs to review the report and criteria should be defined for that review.
- Errors
  - It is not enough that errors are identified.
  - There must be a process to track, log and monitor the status of exception items to ensure they are corrected/resolved.
  - Accountability must be assigned.
- Quality Review
  - A quality review process can be an effective control, especially around manual processes.
  - It needs to be a formal/repeatable process that is ideally automated.
  - Formal reporting to track results and identify trends is required for an effective quality review process.

# WHY ARE INTERNAL CONTROLS IMPORTANT?



# WHICH CAR WINS THE RACE?

...a race car with, or without, brakes



EMORY  
UNIVERSITY

Internal Audit Division  
[Website](#) | [Online Trust Line](#)



# WHY HAVE BRAKES ON A RACE CAR?

Some would say  
“to SLOW it  
down.”

But brakes allow  
the car to go  
FASTER!

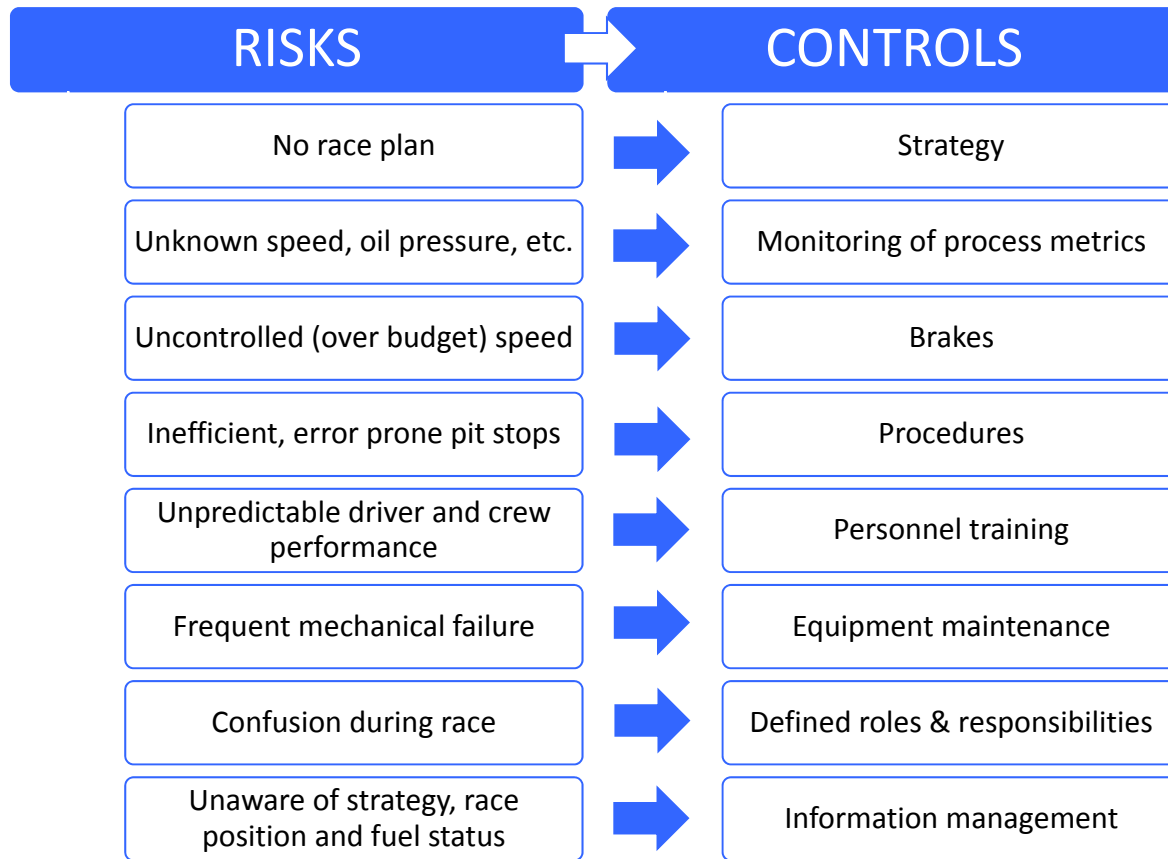
*Controls on organizational processes,  
like good brakes, allow the organization to speed ahead,  
knowing it will safely negotiate each turn on its business course.*

*Source: Protiviti*



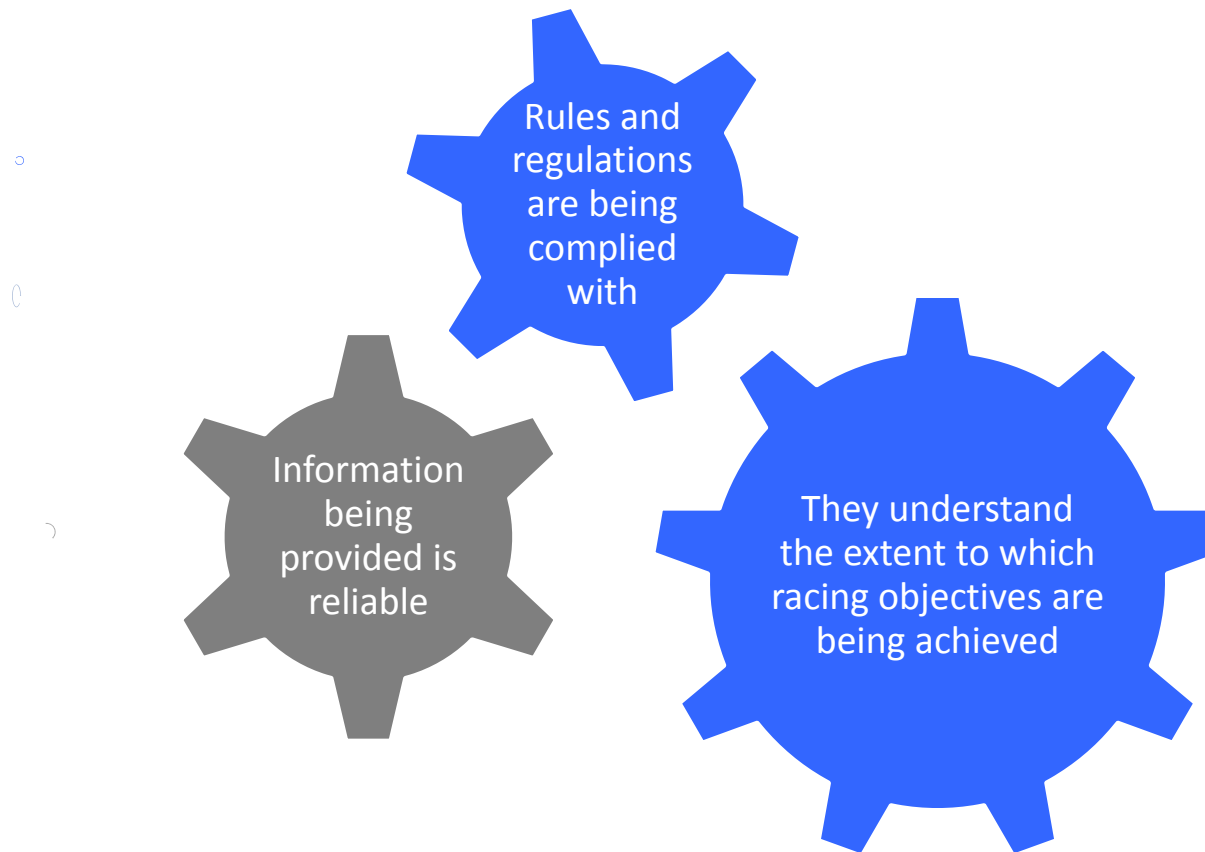
# RISK AND CONTROL

Some of the controls on a race car.



# RACE CAR CONTROLS EFFECTIVE IF:

The race team owners, staff, sponsors and fans have reasonable assurance that:



“In-control” because there will be few Surprises during the race!

# AN ORGANIZATION IN CONTROL

What does it look like?



# INEFFECTIVE INTERNAL CONTROLS

## Impact of Fraud on Emory

**March 18, 2014**

DECATUR, Ga. — DeKalb County prosecutors say a **former Emory University employee** has been **sentenced to 20 years on multiple computer theft charges**.

District Attorney's spokesman Erik Burton said Tuesday that 48-year-old Kent Spicer of Ellenwood once served as senior business manager for the Emory University Division of Medicine and used the school's accounts payable system to buy various electronics. Burton says Spicer would then sell the goods on eBay and pocket the proceeds. Prosecutors say Spicer executed the purchasing scheme between May 2007 and July 2011.

Burton says Spicer was ordered to **spend four of his 20-year sentence behind bars and pay \$150,000 in restitution** to the university.

# RECENT FRAUDS

Area	# of Thefts	\$ Amount of Thefts	Control Failures		
			SOD (prevent)	Approval (prevent)	Monitoring (detect)
Cash/Check/Credit Card Diversion	2	\$500,000	X	X	X
Emory Express	2	220,000	X	X	X
Direct Billing	2	160,000	X	X	X
Payroll	5	145,000	X	X	X
Cash Advance	2	50,000	X	X	
P-Card	7	20,000	X	X	X
Expense Reimbursement	4	10,000	X	X	
Totals	24	\$1,105,000			



# CONSEQUENCES TO EMORY

- Public Trust
  - Donors
  - Funding/Agencies
  - Parents
  - Patients
  - Taxpayers
  - Students
- Public Image
- Loss of Funding
- Perception of Department or Organization
- Criminal or Civil Investigation

**The reputation of a thousand years may be determined by the conduct of one hour.**  
*- Japanese proverb*

**Watch the little things.**  
**A small leak will sink a great ship.**  
*- Ben Franklin*



# THE FRAUD TRIANGLE



**Even the best systems of internal control cannot provide absolute safeguards against irregular activities.**



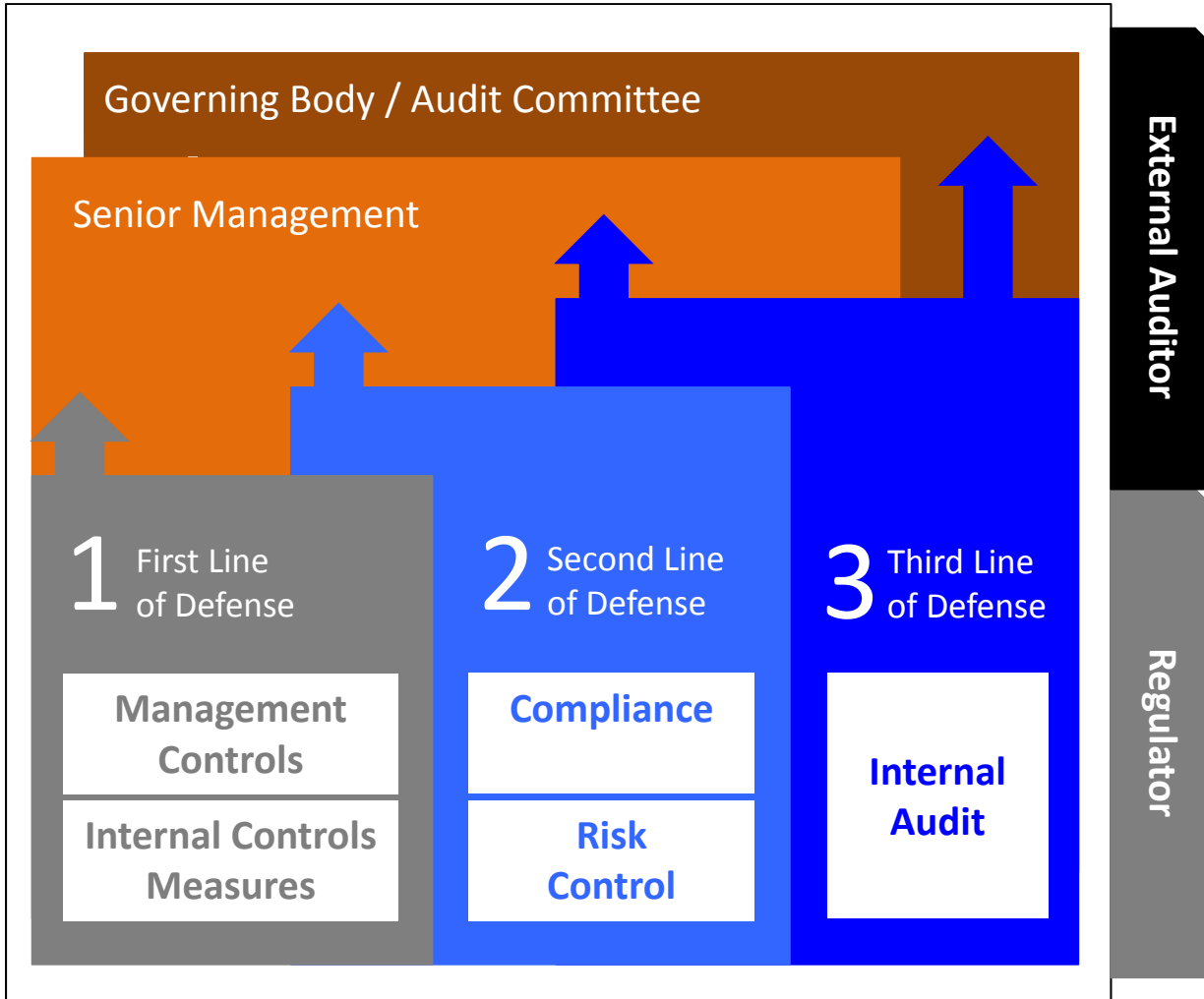
# FINAL THOUGHT



**WE NEED  
YOU**



# INTERNAL CONTROL - THE LINES OF DEFENSE



## 1 First Line of Defense

Operational units take or acquire risk under a predefined policy and set of limits and perform daily checks, together with the regular monitoring performed by authorized management on the activities and functions of which they have direct responsibility.

## 2 Second Line of Defense

Compliance and risk control develop implement and maintain on a ongoing basis risk frameworks and objectively challenge execution of risk and compliance strategies, approaches and related management information.

## 3 Third Line of Defense

Internal Audit function performs an independent, objective, and critical assessment of the design and effectiveness of the overall system of internal control including 2<sup>nd</sup> line of defense functions. It is fully independent from audited areas and reports directly to governing body.

# ROLES AND RESPONSIBILITIES

## Employees

- Be involved in internal control and perform expected control activities

## Management

- Establish goals and objectives. Understand risks that could prevent meeting those objectives.
- Design and oversee the system of internal controls
- Ensure resources and support are available
- Establish measures to assess performance
- Establish systems to monitor results, changes in risks and control effectiveness
- Set the tone and be the example

## Internal Audit

- Advise and consult on system of internal controls
- Evaluate the effectiveness of the system of internal controls.

## Board of Directors

- Oversee Emory's system of internal controls for finance, accounting, legal compliance, and ethics.

# WHAT CAN WE DO? ROLE OF THE BUSINESS OFFICER



**Faculty/staff rely on you to explain rules/policies**

Be able to say no and explain why.

## **Ethical leadership**

- Be the example, not the exception.
- “Ethics are what you do if you were sure everyone was watching.”

**Be consistent**



**EMORY**  
UNIVERSITY

Internal Audit Division  
[Website](#) | [Online Trust Line](#)



# PROMOTE THE TRUST LINE

Prevent, Detect, and Report Concerns

## PREVENT AND DETECT

- Internal Controls
- Internal Audit

## REPORT

- Emory Trust Line
- Management

Are you aware of potential ethical, legal, and/or business conduct violations or concerns at Emory?

**Tell Us. It Matters.**

Call the  
**Emory Trust Line**  
**1-888-550-8850**



- Administered through an independent company
- Available 24 hours a day, 7 days a week, 365 days a year
- Anonymous and confidential reporting

### What are some examples of potential violations or concerns?

- Theft
- Fraud, waste, and/or abuse
- Conflicts of interest
- Research misconduct
- Billing misconduct
- Harassment
- Discrimination
- Potential violations of Emory's code or standards of conduct
- Other potential ethical, legal, and/or internal business policy compliance violations or concerns

EMORY



**Direct Reporting:** Additionally, you may report your concerns directly to a supervisor, any senior Emory administrator, or to the offices listed below.

Emory University  
Emory Internal Audit Division: 404-727-6146  
Emory University Human Resources: 404-727-7611  
Emory Office of Equal Opportunity Programs: 404-727-9867

Emory Healthcare  
Emory Healthcare Compliance Office: 404-778-2757  
Emory Healthcare Human Resources: 404-686-7100

For more information visit: [www.iad.emory.edu/trustline.htm](http://www.iad.emory.edu/trustline.htm)



**EMORY**  
UNIVERSITY

Internal Audit Division  
[Website](#) | [Online Trust Line](#)

# CONTACT INFORMATION

Scott Stevenson, Chief Audit Officer

404-727-3323

[sjsteve@emory.edu](mailto:sjsteve@emory.edu)

Webpage:

<http://www.iad.emory.edu/audit/index.html>

Belva White, Associate VP/Controller

404-727-2584

Webpage:

<https://www.finance.emory.edu/home/index.html>

# QUESTIONS

