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# **INTERNAL AUDIT Fraud Investigation Process**

**Campus Administrative Training Series  
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Stewart Cobine, CPA – AVP & Chief Audit Officer  
Maggie Harrell, CFE – Senior Investigative Auditor



# FOCUS OF SESSION

- Background on *Internal Audit*
- *Fraud and fiscal misconduct* – definitions and examples
- *Reporting process* of suspected or known wrong doing.
- Overview of the *Anonymous Reporting Hotline* and Internal Audit's *investigation process*.
- Ways you can help *prevent fraud*.



# What is Internal Audit?

What comes to mind first?

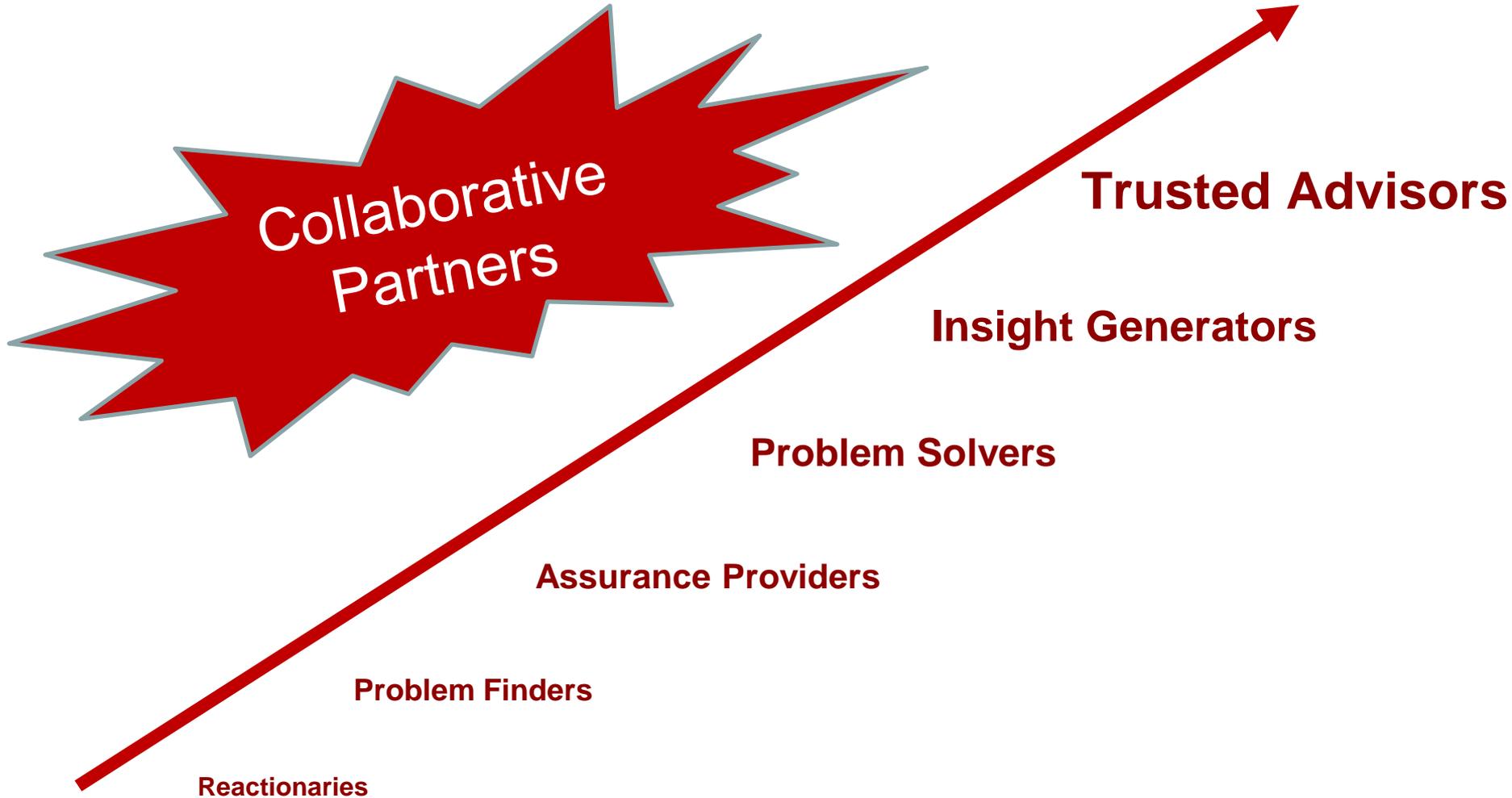
- Trouble Makers?
- The “Gotcha” Squad?
- Compliance police?
- 1<sup>st</sup> cousin to the IRS?
- “Infernal” Audit?





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# Where we Aim to Be





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# Internal Audit Defined

Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes.

Definition of Internal Audit, first adopted by the Institute of Internal Auditors in 1999, and re-affirmed in their International Professional Practices Framework, published in November of 2009



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# The Principles of Ethical Conduct

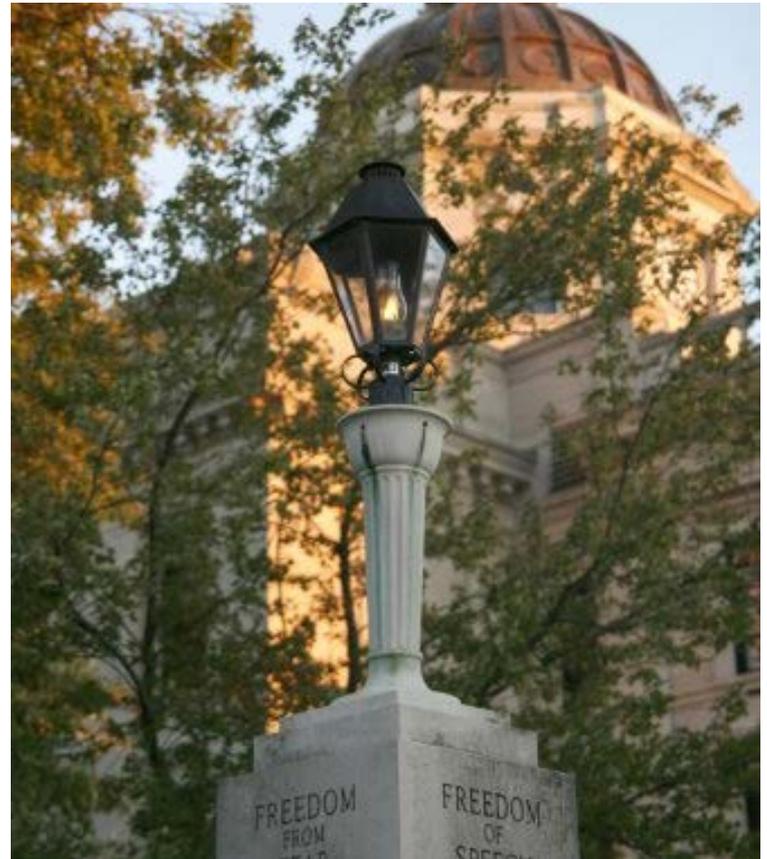
“These principles of ethical conduct represent our values, our expectations, our beliefs and our commitment to the highest standards in educating our students, in performing research and in providing services to the community and to one another.”

"We believe these principles will promote self-governance, best practices, transparency and a commitment to integrity throughout our university.”

John Applegate,

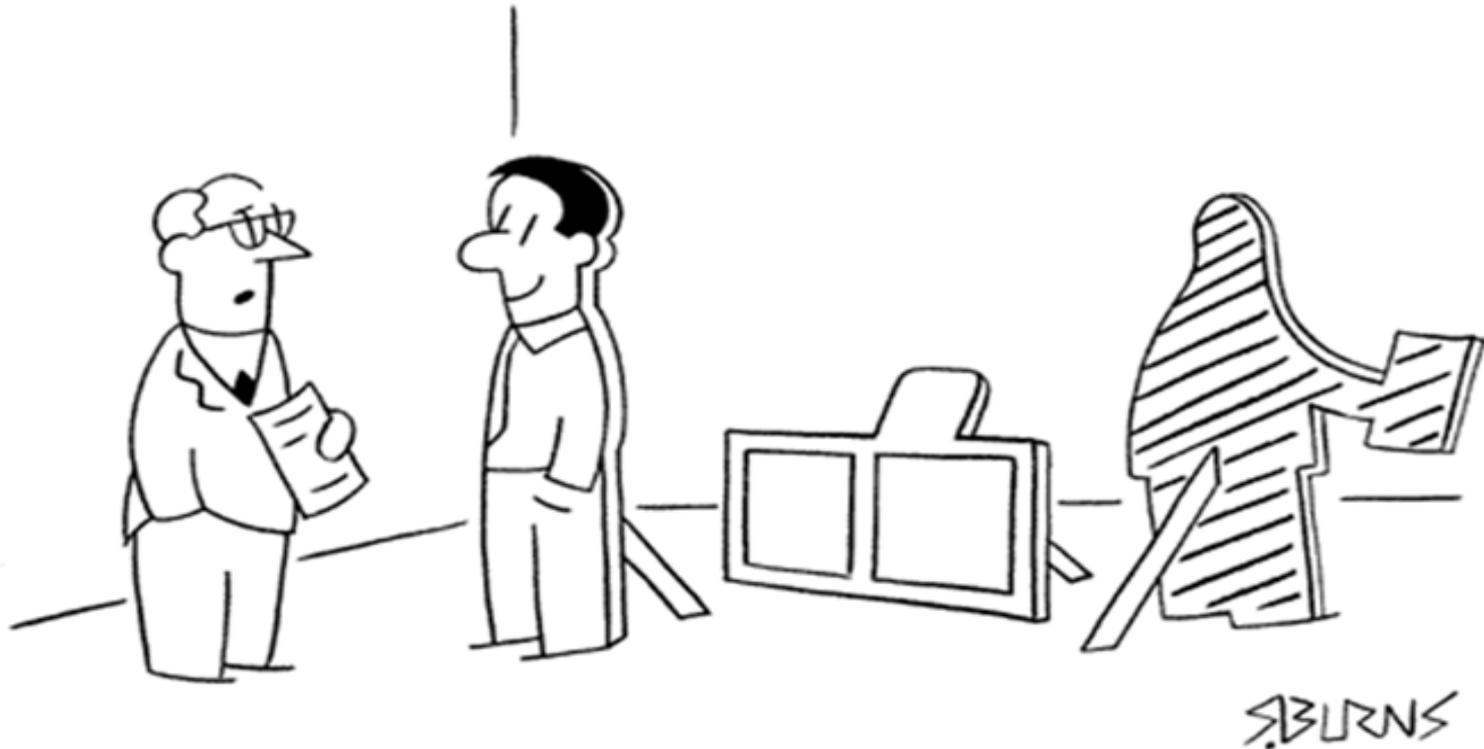
IU Executive Vice President for University Academic Affairs

*IU Newsroom, Dec. 6, 2013*





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**"We've had some reports of fraud in this department, Milby.  
Know anything about it?"**



# Fraud

- **Fraud:** The **deliberate misrepresentation** of fact for the purpose of depriving the university of a valuable possession or legal right.
- If any employee **knows or suspects** that other university employees are engaged in fraud, it is his or her responsibility to immediately notify the Internal Audit Department or the appropriate campus police department.
- Any employee who has knowledge of fraud by another employee and does not report such to university officials may himself/herself be subject to disciplinary action, including termination from Indiana University.
- [IU Policy- FIN-ACC-I-35- Fraud](#)



# Fiscal Misconduct

- **Fiscal Misconduct is:**
  - an activity or set of activities that lead to the intentional spending of university resources that are not approved;
  - inappropriate use of university resources including assets and personnel;
  - knowingly violating university financial policies;
  - manipulation of university data and documentation to allow spending where funds do not exist; or
  - intentionally misreporting university transactions.
- If any employee **knows or suspects** that other university employees are engaged in fiscal misconduct, it is his or her responsibility to immediately notify the Internal Audit Department and the Responsibility Center (RC) Fiscal Officer.
- [IU Policy- FIN-ACC-I-30- Fiscal Misconduct](#)



# Areas of Concern to Report

- Conflict of Interest
- Conflict of Commitment
- Harassment
- Discrimination
- Ghost employment
- Title IX compliance
- HIPAA compliance
- Research compliance
- Nepotism
- Pcard Misuse
- Travel expense abuse
- Theft
- Compliance violations
- IT Abuses
- Misuse of IUF funds



# How to Report

- To discuss or report fraud/fiscal misconduct related concerns, contact any one of the following:
  - A supervisor
  - Any member of management
  - Your unit's HR or fiscal officer
  - Your school's compliance officer
  - University Compliance Office
  - Internal Audit
  - IUPD
  - Anonymous Reporting Hotline – link is on IA website
    - 888-236-7542
    - <https://secure.ethicspoint.com/domain/media/en/gui/17361/index.html>



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## INDIANA UNIVERSITY ANONYMOUS REPORTING HOTLINE

*This is not a 911 or Emergency Service. Reports submitted through this service may not receive an immediate response. If you require emergency assistance, please call 911.*

### TO MAKE A REPORT

Click on the appropriate category below or call 888-236-7542

#### **Athletics**

NCAA compliance or rules violations issues.

#### **Discrimination/Harassment**

Discrimination or harassment based on age, color, disability, ethnicity, sex, gender identity, marital status, national origin, race, religion, sexual orientation, or veteran status, as prohibited by IU's [Non-Discrimination/Equal Opportunity/Affirmative Action Policy \(UA-01\)](#) . Sexual misconduct as prohibited by IU's [Sexual Misconduct policy \(UA-03\)](#) .

#### **Financial**

Theft, fraud, or inappropriate use of university resources, manipulation of university data, or intentionally misreporting transactions, etc.

#### **HIPAA**

Violations of compliance with federal, state privacy and security regulations or university policy associated with health information

#### **Human Resources**

Violations of university personnel policies for faculty, staff or hourly employees. Misreporting or falsification of work hours, misuse of university benefits, etc.

#### **Information Technology**

Unauthorized access to or disclosure of sensitive university data (i.e. personally identifiable data of students, faculty, staff, etc.)

#### **Research**

Violations of compliance with federal, state or donor rules and regulations.

#### **Indiana University Foundation**

Theft, fraud, or inappropriate use of IUF resources, intentionally misreporting financial transactions, violations of IUF personnel policies, misreporting or falsification of work hours, misuse of IUF employee benefits, unauthorized access to, or disclosure of, IUF data, violations of compliance with federal, state or donor rules and regulations, or other forms of misconduct not specifically identified here.



# Investigation Process

- Receive report internally or via hotline
- Triage by our team
  - HR
  - General Counsel
  - Internal Audit
- Goal of investigation- provide independent appraisal, examination and evaluation to management.
- Interviews, document review, etc.
- Close out the process with a memo if substantiated.
- Every investigation is different
- Maintaining confidentiality is paramount.



# Non-Retaliation Policy & Whistleblower Protections

- Retaliation against any employee who has submitted a complaint or concern is strictly prohibited.
- Accusations of retaliation will be taken very seriously and may result in disciplinary action, if substantiated.
- Reports should only be made in good faith.
- Those who submit good faith reports or inquiries are entitled to be treated in accordance with whistleblower protection laws:
  - IU Policy  
<http://policies.iu.edu/policies/categories/administration-operations/whistleblower/whistleblower.shtml>
  - Indiana State Statute  
<http://www.in.gov/legislative/ic/code/title21/ar39/ch3.html>



# Headlines

- “Former University of Louisville Dean of the College of Education and Human Development is Sentenced to More Than 5 Years in prison for misappropriating \$2.3 million from a federal research grant”  
Some faculty members say that the university could have detected Mr. Felner's wrongdoing earlier if administrators had paid attention to faculty and student complaints about his conduct
- “New Jersey Medical Dean accused of falsifying budgetary statements to claim more than \$50,000 in bonuses”
- “Former Director of Arizona Universities Student Association accused of embezzling nearly \$210,000 from the organization”
- “UCLA Professor Indicted for Financial Impropriety – charged with swindling the government and university out of \$1 million by faking research purchases and putting family members on the payroll”
- “Stanford cites potential conflicts of interest in business dealings with Trustees - \$2.2 million in legal fees paid to law firm headed by one of it's Trustees”
- “Former professor at Tennessee State University pleads guilty to making false statements to the National Science Foundation related to fraudulent travel expenses causing a loss to the government of \$10,000”



# Headlines Closer to Home

- *“A student hourly employee stole books with a replacement value of \$4,725 and sold these books for \$1,472”*
- *Employee utilizes student organization accounts to embezzle over \$10,000*
- *“The billing manager for a departmental clinic submitted falsified documents and fraudulently received tax saver benefit reimbursements totaling more than \$10,000”*
- *Ex-staffer arrested on charges of embezzling more than \$300,000 from the University*



# Ways to Prevent Fraud

- ✓ Tone at the top
  - Perception of Detection
- ✓ Consistent review transactions, trends, and variances
- ✓ Implement internal controls to reduce risk
- ✓ Investigate Red Flags
- ✓ Provide Fraud Education
- ✓ Job rotation
- ✓ Clearly written procedures or SOPs.



# THE FRAUD TRIANGLE





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**Your Questions?**



**Thank you**