Fistful of Dollars | Member News | Conference Agenda | Conference Registration

Community College Internal Auditors *Fall Conference*
October 5 & 6, 2006
Handlery Hotel & Resort
950 Hotel Circle North, San Diego, CA

11 CPE Hours

Welcome by Board of CCIA

Internal Controls for Governments and Local Agencies, Gary Caporicci, Senior partner and Co-founder of Caporicci & Larson, CPA, will review COSO II methodology and related identification of internal controls for community college districts.

New CBO Training, Mike Brandy, Vice Chancellor of Business Services for Foothill De Anza CCD, will explain the intent of the new ACBO Institute Training Program and other initiatives ACBO is making to support training and development of Community College Business Office staff. Mr. Brandy will also report on efforts being made to revise the reporting data for colleges as part of their annual & 6 year accreditation responsibilities.

Fraud in Categorical Program: Case Study, Marty Rubio, CPA, State Chancellor’s Office, will present a case study discussing past fraud identified in categorical programs and the related red flag indicators. She will also discuss the recommended steps when a fraud is suspected or uncovered and the suggested internal controls to diminish risk of occurrence.

IT Disaster Recovery, will review risk and mitigation strategies related to Information Technology in higher education.

AICPA Statements on Auditing Standards Update, Ken Pun, Manager with Caporicci & Larson, Certified Public Accountants, will review several new Statements on Auditing Standards that have been issued by the Auditing Standards Board this year. The standards are No. 104 to 111 and are related to risk assessment. Ken will discuss how these standards will impact audit clients and contract auditor focus related to these standards.

A-133 Sub-recipient Monitoring, Sheena Tran, CPA, Rancho Santiago CCD and John Thompson, CPA, CFE, MBA Rancho Santiago CCD, will explain sub-recipient monitoring requirements. Do you pass federal or state grants on to other entities? Do you monitor how these funds are being spent? Learn about the requirements and practical compliance issues now before you are audited by your external auditors or Federal auditors.

50% Law Calculation, Phebe McCutcheon, CPA, Senior Manager with Vicenti, Lloyd & Stutzman, LLP, will discuss state guidelines for preparing the 50% law calculation and factors that can impact the percentage calculated and the compliance audit requirements. She will also explain criteria for instructional costs; define exclusions, and how they are reported.

Roundtable, This is your opportunity to talk with your peers around the state and get their advice on any budget, accounting and procedural matters.
Although some people think accountants don’t have a sense of humor, the branch manager of a New Orleans-based consumer finance company might beg to differ. He saw his life change recently when he inadvertently ran into the company’s internal auditor while the two men were shopping one weekend. Without cracking a smile, the auditor quipped that he was pulling a surprise audit on the manager’s branch first thing Monday morning. The auditor was only joking, but the manager never realized it—perhaps because he had a guilty conscience. He spent the rest of the weekend stewing. Finally, on Sunday night he cracked. He called the company’s president at home and confessed that he had been stealing thousands of dollars from the company’s bank deposits and faking the paperwork to cover it. He was immediately fired, although he was never prosecuted.

Internal fraud is a growing problem that costs corporate America an estimated $400 billion a year, according to the most recent survey of fraud examiners by the Association of Certified Fraud Examiners (ACFE). But it is difficult to pin down because it can be carried out through an endless array of schemes and individual transactional losses may be small.

Corporate security professionals need to understand what type of fraud is occurring within company walls and who is committing it. They must then develop effective strategies that keep the antifraud message at the forefront of their employees’ consciousness.

FRAUD TYPES
Through an analysis of 2,608 reported fraud cases, the ACFE has identified three types of fraud that routinely occur in corporate America: asset misappropriation, corruption, and fraudulent statements.

Asset misappropriation. Asset misappropriation is when an employee steals cash or assets (supplies, inventory, equipment, and information) from the company. Of all the fraud committed against the company, asset misappropriation is by far the most common type, accounting for more than eight in ten cases. However, on average, it is the least costly of the frauds, costing a company about $65,000 per incident.

Corruption. Bribery and kickbacks account for about 15 percent of the fraud cases analyzed by the ACFE. The average incident costs about $400,000 and involves crooked purchasing agents who steer company business to a vendor for kickbacks. For example, these employees might rig the bid process in favor of a particular vendor competing for a company contract. These cases have traditionally been difficult to uncover in advance. That’s because corruption is often an “off-book” fraud, meaning that there is little financial evidence available to prove the crime occurred. Corrupt employees don’t have to fraudulently change financial statements to cover up their crimes, they simply receive cash payments under the table. In most cases, these crimes are uncovered through tips or complaints from other vendors.

Fraudulent statements. Although all fraud involves fraudulent statements somehow, this category refers primarily to fraudulent financial statements made by upper management to lenders, investors, and shareholders. For example, one noteworthy case involved a chain of electronics stores in which employees cooked the company’s financial statements to make the chain look more robust and overvalued its inventory by about $65 million, consequently driving up the price of its stock.

Fraudulent statements represent only a small part of overall fraud activity—about 5 percent—but each incident costs an organization an average of $4 million.

WHO STEALS
The ACFE has also looked at who steals from the company. It has analyzed report data based on the age, sex, education, and corporate position of those involved in fraud in search of meaningful patterns.

Age. The correlation between age and the amount of the loss is one of the most consistent. Losses caused by employees over 60 years of age average 28 times those caused by workers under 25. For example, the median loss from someone over 60 averages $346,000, while losses from those under 25 average $12,000.

Sex. In addition, three quarters of the employees who commit fraud are male, and losses suffered from men are four times greater than those suffered from women.

Education. More educated employees tend to steal higher amounts per incident than less educated employees.

Position. Top executives who commit fraud cost corporations sixteen times as much money per incident than frauds committed by rank-and-file employees.

In summary, then, a college-educated white male is the most typical corporate fraudster. The study attributes this to the fact that white men make up the greatest percentage of the workforce; and educated employees tend to occupy supervisory positions that give them greater financial authority. Combined, these factors provide this group with more opportunities to steal.

The security professional can take several steps to deter internal fraud—although in doing so the company must ensure that it does not create a suspicious Big Brother environment that makes employees feel oppressed, which is actually conducive to more fraud. Among the programs that work best

continued on page 3
in most companies are ethics statements, employee education programs, and internal accounting controls designed to deter and detect fraud when it occurs.

ETHICS POLICIES
A strong, detailed ethics policy is a good first step in the fight against fraud. Usually written by the corporate legal staff or human resource department, these statements, usually several pages long, should spell out what constitutes improper and illegal behavior, including conflicts of interest, illegal gratuities, fraudulent statements, embezzlement, and a host of other nefarious activities.

The statement should be given to employees to read and sign at the time of hire, and it should be reviewed in employee training at least annually. In addition to telling employees what is expected of them, a signed ethics statement gives a company stronger legal grounds for discharging dishonest employees; it, thereby, helps to protect the corporation against wrongful termination suits by showing that an employee had agreed not to take part in the behavior that took place.

The statement also conveys to employees management’s philosophy. For example, a good ethics statement should remind employees that the company will compete in the marketplace honestly, directly, fairly, and in compliance with antitrust laws.

Employees should be reminded that they are never to do the following: discuss such matters as marketing strategies, sales price, sales policies, and market share with the company’s competition; require customers to buy the company’s product in exchange for the company’s buying from the customer; require customers to buy products and services they don’t want as a condition of getting services they do want; and engage in industrial espionage or commercial bribery.

The ethics statement should tell employees to follow all laws and regulations that affect the company, such as the Foreign Corrupt Practices Act. It should outline what constitutes a conflict of interest and what an employee should do if offered a gift from a supplier, vendor, or other organization with a business interest before the company.

In addition, a good ethics statement covers issues such as outside employment. For example, the statement prohibits employees from having a second job that competes with the company or will in any way compromise or interfere with their ability to do their company job objectively.

It also spells out how employees are to handle company cash, bank accounts, assets, expense reimbursements, credit cards, and computer equipment. It outlines how employees are expected to conduct themselves during business hours, including the prohibition of alcohol and drug use on company premises. In addition, it details company policies on such issues as political contributions, for example, allowing employees to contribute their own money but prohibiting them from pressuring other employees to contribute to certain candidates.

EMPLOYEE EDUCATION
Employee antifraud education programs should be conducted once a year to review the corporate ethics statement as well as other issues. All employees should be required to attend, including each senior executive.

The inclusion of top management is important for three reasons. First, as stated earlier, senior managers are not immune to fraud and in fact are in a position to steal higher amounts per incident from the company. Second, managers act as models for rank-and-file workers. Dishonest managers set a negative tone that will likely lead other employees to steal, while managers who set a positive image of honesty and integrity are likely to have employees who are honest. Third, managers must know how to spot employee theft, and by taking education courses, they can learn the red flags that can signal internal fraud before the company loses a significant amount of money.

Training programs should avoid preaching or making threats, which can lower morale, create a management-versus-employee environment, and actually lead to more fraud. Instead, employee education should concentrate on the benefits of antifraud programs and how employee honesty actually serves all workers. For example, a good education program explains how fraud and abuse cuts into company profits and, by extension, employee raises and promotions.

Because most employees believe that only “bad people” commit fraud, an education program should discuss the psychology of fraud and how otherwise honest employees have sometimes stolen from their companies. For example, some seminar programs cite the “fraud triangle,” a concept developed in the late 1940s by sociologist Donald R. Cressey, who concluded that anyone can steal provided that three factors exist: the individual has an immediate financial problem; the person believes the problem can be solved through theft; and he or she can rationalize the theft.

Employees should also be taught how to recognize when a fraud is occurring and how to report it. For example, employees should know that another employee’s sudden change in lifestyle, absent known sources of additional income, can be a sign that fraud is occurring. Employees must also know that they can report suspicious activity without the threat of repercussions against them. And they should be taught about reporting methods that the company has put in place, such as fraud hot lines (more on this later).

Education programs can take many forms, including seminars, poster campaigns, and newsletters. Good programs tend to include all three elements and play on similar themes to get the message across.

Nortel Networks, a provider of network solutions based in Toronto, incorporates ethics and security-awareness training in a variety of ways, including the company’s week-long “new employee training program,” the various courses the company offers employees through its learning institute, and posters that feature different security and antifraud themes each month. In addition, security issues are reported and discussed on the company’s intranet Web page, which includes a monthly electronic security newsletter and a quarterly electronic security bulletin.

INTERNAL CONTROLS
Through audits and sound accounting procedures, a company can go a long way in deterring and detecting internal fraud. One of the strongest measures a company can take is to establish an audit committee, a subcommittee of the corporate board of directors that works with the company’s accountants.
to ensure that proper financial procedures are in place. The goal is to make it more difficult for employees to successfully steal from the company.

Because the committee consists of corporate directors, it serves as a watchdog over senior executives and sends a message to all employees that fraud will not be tolerated. The committee ensures that the company maintains a strong accounting system in which records of all financial transactions are properly maintained and routinely audited.

As part of that accounting system, the company should establish a division of responsibilities. No employee, not even the president, should handle a financial transaction from beginning to end. Employees who handle cash should not have access to the books.

Larger businesses almost always follow this cardinal rule. But small businesses often have a one-person accounting department in which the bookkeeper not only handles the books but also reconciles the bank statement and signs the checks. Under this system, bookkeepers can write checks directly to themselves and falsely list the charge to an expense account of some type. To cover his or her tracks, the dishonest employee destroys the check when it is returned in the bank statement.

Audits should be done on a routine basis. In addition, the company should consider conducting surprise audits, which do not give fraudsters time to cover up their tracks before a regularly scheduled audit.

Auditors must look at financial records skeptically and watch for several potential red flags. For example, the auditor should check the office’s sales figures against its actual revenues. Are the office’s sales increasing but its cash decreasing? If so, the reason could be legitimate; perhaps the company is using additional resources because it is expanding. The numbers could, however, signal that someone is tapping the till.

The auditor must do a line-by-line comparison between the company’s current performance against the previous year’s performance. For example, the auditor might notice that one expense item is increasing significantly beyond the prior year’s level. It could be that the item increased in price or that the company is purchasing more of that item this year. However, it could also mean that someone is stealing from the company and using that item as a cover.

Auditors should also check inventory levels to determine whether there is significant shrinkage (lost product) from one year to another, a sign that someone might be stealing company product or equipment. They should check the list of vendors as well for any businesses whose names and addresses the auditors do not recognize. The addresses of suspicious vendors should be checked against a list of employee home addresses to ensure that a worker is not having corporate checks sent to his or her house as a payment to a phony vendor.

In addition, auditors should look for checks that are out of sequence. Employees who write company checks to themselves will often get a check from the back of the book.

**HOT LINE**

The company should establish a mechanism through which employees can report possible misdeeds. A hot line is the most popular reporting mechanism. It allows employees to leave an anonymous message reporting suspicious activity that can then be investigated by security. One effective way to do this is to hand out wallet-size cards that contain the hot line telephone number and the company’s assurance that employees can report fraud without any fear of retribution.

Many companies staff their own hot lines from within, while others use a third-party provider. For example, the ACFE operates EthicsLine (877/217-9561), which is answered 24 hours a day by experienced interviewers. Calls concerning possible irregularities are reported back to the company, which can then determine whether an investigation is warranted. There are other third-party providers of such services as well.

Crimes like murder and assault are often committed in the heat of passion, without much forethought. Fraud is of a different nature. It is among the most deliberate of all offenses, with the employee or manager carefully weighing his or her chances of detection before engaging in improprieties. As a result, the best prevention efforts will concentrate on increasing an employee’s perception of being caught. By instituting a strong ethics policy, an employee education program, and internal auditing controls, the company can ensure that the antifraud message will be ever present in the employee’s mind.

Thank you to the Association of Certified Fraud Examiners (ACFE) for the permission to reprint this article which was taken from the Fraud Magazine.
President’s Message

The CCIA web page welcomes you by pronouncing, “CCIA Making a Difference.” In sharing a message with you I asked myself, “How does CCIA make a difference?” This question can be answered by the following CCIA Mission statement:

- Encourage cooperative relationships among community college internal auditors;
- Promote and encourage the establishment of internal auditing functions within community colleges, and encourage the adoption of the Standards for the Professional Practice of Internal Audit;
- Provide members with quality training and continuing professional education; and
- Keep members informed on current issues.

CCIA encourages, promotes and provides a rich environment for internal auditors to be successful and integral members of higher education communities. This environment is fostered by the support of the California Community College Chancellor in his opening remarks at our Spring conference, by the involvement of college presidents and chief financial officers, and by participation and guidance from external CPA, audit and industry consultants. Most importantly, this encouraging environment can be seen in the technical, professional, and supportive involvement of higher education internal auditors such as you.

I am encouraged by the willingness of each CCIA member to sit together in a hotel lobby, ask questions via email, and extend dinner conversations all with the intention of sharing and providing guidance to other internal auditors and business staff.

Not only does CCIA make a difference, but you make a difference. Together we make a difference within our individual work environments and within our industry of higher education.

I look forward to seeing you and making a difference in October.

Best Regards,

Brett Bell, President

Introducing New Members

We welcome a new internal auditor to the California Community College system. Sheena Tran, CPA, joined Rancho Santiago Community College District May 1, 2006. Ms. Tran has six years of external audit experience concentrated on educational agencies. Most recently, she was Accounting Manager in charge of payroll at Ontario – Montclair School District.

James Kong, CPA, joined the State Chancellor’s Office, Fiscal Services in September 2005. James comes to the State Chancellor’s Office after a two-year stint with the California Department of Education where he apportioned general purpose and categorical block grant funds to California’s 450 charter schools. Prior to that, James was an auditor for 15 years with the California Department of Finance, Office of State Audits and Evaluations where he was responsible for internal control, compliance, and financial related audits.

Fiscal Monitoring and the Sound Fiscal Management Self-Assessment Checklist

In October 2005, the System Office issued an accounting advisory: Monitoring and Assessment of Fiscal Condition. The monitoring and assessment process outlined in the accounting advisory is intended to provide for early detection of districts that are experiencing fiscal difficulties. Early detection will allow the district and System Office an opportunity to take proactive/preventative steps to stabilize and address the financial condition of identified districts. This process will utilize various information sources to assess the financial condition of all community college districts and will allow the System Office to provide technical and administrative assistance to bring about improvement in a district’s financial condition.

The advisory includes the Sound Fiscal Management Self-Assessment Checklist. Districts are encouraged to regularly complete the Self-Assessment Checklist with their Board and executive staff.

We Want to Hear from YOU!

Have you read anything of interest such as audit findings, fraud findings, interesting books or articles? Please send us any news that would be of interest to your colleagues.

Send articles to:
Richard Kudlik, Internal Auditor
rkudlik@mail.cccd.edu
AGENDA

Community College Internal Auditors Fall Conference
Handlery Hotel & Resort
950 Hotel Circle North, San Diego, CA

October 5 & 6, 2006

October 5, 2006, Thursday

7:30 – 8:15  Sign In, Buffet Breakfast Provided
8:15 – 8:45  Welcoming by the Board of CCIA
8:45 – 10:15  Internal Controls for Governments and Local Agencies, Gary M. Caporicci, Senior Partner and Co-Founder of Caporicci & Larson, CPA Firm, will review COSO II methodology and related identification of internal controls for community college districts.
10:15 – 10:30  Break
10:30 – 12:00  New CBO Training, Mike Brandy, Vice Chancellor of Business Services for Foothill De Anza CCD, will explain the intent of the new ACBO Institute Training Program and other initiatives ACBO is making to support training and development of Community College Business Office staff. Mr. Brandy also serves on the fiscal advisory committee for the accrediting commission (AACJC) and will report on efforts the commission is making to revise the reporting data for colleges as part of their annual and 6 year accreditation responsibilities.
12:00 – 12:45  Lunch Provided
12:45 – 2:00  Fraud in Categorical Programs: Case Study, Marty Rubio, CPA, State Chancellor’s Office, will review a case study showing past fraud identified in categorical programs and the related red flag indicators. She will also discuss the recommended steps when a fraud is suspected or uncovered and the suggested internal controls to diminish risk of occurrence.
2:00 – 2:05  Break
2:05 – 3:35  IT Disaster Recovery, will review risk and mitigation strategies related to Information Technology in higher education.
3:35 – 3:40  Break
3:40 – 4:40  AICPA Statements on Auditing Standards Update, Ken Pun, Manager with Caporicci & Larson, Certified Public Accountants, will review several new Statements on Auditing Standards that have been issued by the Auditing Standards Board this year. The standards are No. 104 to 111 and are related to risk assessment. Ken will discuss how these standards will impact audit clients and contract auditor focus related to these standards.
4:40 – 5:00  CCIA Business Meeting

See AGENDA on page 7
October 6, 2006, Friday

8:00 – 8:30  Continental Breakfast Provided

8:30 – 10:00  **A-133 Sub-recipient Monitoring**, Sheena Tran, CPA, Rancho Santiago CCD and John Thompson, CPA, CFE, MBA Rancho Santiago CCD, will explain sub-recipient monitoring requirements. Do you pass federal or state grants on to other entities? Do you monitor how these funds are being spent? Learn about the requirements and practical compliance issues now before you are audited by your external auditors or Federal auditors.

10:00 – 10:15  **Break**

10:15 – 11:15  **50% Law Calculation**, Phebe McCutcheon, CPA, Senior Manager with Vicenti, Lloyd & Stutzman, LLP, will discuss state guidelines for preparing the 50% law calculation and factors that can impact the percentage calculated and the compliance audit requirements. She will also explain criteria for instructional costs; define exclusions, and how they are reported.

11:15 – 12:00  **Roundtable** – This is your opportunity to talk with your peers around the state and get their advice on the suggested topic, other presentation topics and any other budget, accounting or procedural matters.

12:00  **Boxed Lunch Delivered, Conference Ends**

Newly elected CCIA Board Members at the State Chancellor’s Office in Sacramento, California during the Spring 2006 Conference.
2006 FALL CONFERENCE

Handlery Hotel & Resort
950 Hotel Circle North, San Diego, CA
October 5 & 6, 2006

Directions
From 805, 163 & 15:
From 805, 163 & 15:
8 West to Hotel Circle North
Left at stop sign
Right into Handlery Hotel
parking

Parking:
Available at hotel for $5 per
day for overnight guests, with
unlimited in and out privileges

Airport Shuttle:
Available at $11.50 per person
per way by Cloud Nine Shuttle

Hotel Accommodations

Handlery Hotel & Resort
950 Hotel Circle North
San Diego, CA 92108
Phone (619) 298-0511

One/Two Person - $90.00
Ask the front desk for CCIA Rate
Reserve by September 8, 2006

Conference participants are encouraged to book room reservations early in order to insure a room

2006 Fall CCIA Conference - Confirmation Notice

Fees and Deadlines:
$95.00 - Single Attendee paid by September 15, 2006
$85.00 - Multiple Attendees from a district paid by September 15, 2006
$105.00 - Any Attendee paid after September 15, 2006

Refunds:
Must be requested in writing 7 days prior to conference.

To Register:
1) Contact Melissa Kane at (951) 222-8589 or melissa.kane@rcc.edu
2) Make Checks payable to: Community College Internal Auditors
3) Return this confirmation notice and registration fee to:
   Riverside Community College District, 3845 Market Street
   Riverside, CA 92501, Attn: Melissa Kane

In order to have an accurate count for our caterer, please indicate the number of registrants attending lunch:

October 5, 2006, Thursday
How many will attend lunch? _________

October 6, 2006, Friday
How many will attend lunch? _________

From the airport:
8 East to 2nd Hotel Circle North exit
Left at stop sign
Follow road under fwy
Pass 2 signals & 1 stop sign
Right into Handlery parking

Parking:
Available at hotel for $5 per day for overnight guests, with unlimited in and out privileges

Airport Shuttle:
Available at $11.50 per person per way by Cloud Nine Shuttle

From 805, 163 & 15:
8 West to Hotel Circle North
Left at stop sign
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A Fistful Of Dollars is a wonderful movie which, despite having an enormous following of fans around the world, sometimes gets unfairly dismissed in my opinion. For two reasons - firstly because the second and third movie in Leone/Eastwood "Man With No Name" trilogy ('For A Few Dollars More' and 'The Good, The Bad and The Ugly') are so damn good it's easy to overlook this one. The second reason is the Yojimbo thing. Now movie buffs frequently slam 'A Fistful Of Dollars' as being a rip off of Kurosawa's 'Yojimbo', which I think is extremely misleading. I'm not disputing that Leone was familiar with Kurosawa (I have no idea one way or the other), but one name I rarely hear ANYONE mention is Dashiell Hammett. A Fistful of Dollars, Italian western film, released in 1964, that popularized the spaghetti western subgenre and was a breakthrough movie for director Sergio Leone and star Clint Eastwood. A mysterious stranger (played by Eastwood) drifts into a small Mexican town only to find a virtual war. Author/co-author of numerous books about the cinema and is regarded as one of the foremost James Bond scholars. His book The Essential Bond: An Authorized Guide to the World of 007 (written with See Article History. Alternative Title: "Per un pugno di dollari") A Fistful of Dollars, Italian Per un pugno di dollari, Italian western film, released in 1964, that popularized the spaghetti western subgenre and was a breakthrough movie for director Sergio Leone and star Clint Eastwood. A Fistful of Dollars (Italian: Per un pugno di dollari) is a 1964 Italian-Spanish Spaghetti Western film directed by Sergio Leone and starring Clint Eastwood alongside Gian Maria Volontè, Marianne Koch, Wolfgang Lukschy, Sieghardt Rupp, JosÃ© Calvo, Antonio Prieto, and Joseph Egger. Released in Italy in 1964, then in the United States in 1967, initiating the popularity of the Spaghetti Western film genre. It was followed by For a Few Dollars More (1965) and The Good, the Bad and the Ugly (1966), also Fistful Of Dollars. The camera work is not only supported but celebrated with an amazing cinematography as it does usually on such western feature. As much as simple the plot goes, the weaving of the whole structure goes dull in its first act, as it grows obvious. The choreography too has improved a lot and so has the meddling of the emotions among the characters that is done well within shorter runtime of almost 100 minutes that helps factor in on its favor. Fistful Of Dollars is more than a handful and even though its reach for something more colossal that its potential fails in here, it still grasps a whole lot of popcorn fun in here. The Man with No Name: You see, I understand you men were just playin' around, but the mule, he just doesn't get it.