Internal Audit at MIT

SoE Administrators Meeting

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Three Lines of Defense at MIT

**1st Line**

**Managers**
- Maintain and implement controls on a day-to-day basis
- Assess, communicate and mitigate risks

**2nd Line**

**RM&CS/VPF/OSP/EH&S**
- Facilitate and monitor the implementation of risk management practices
- Report adequate risk-related information throughout the organization
- Monitoring compliance to regulations

**3rd Line**

**Audit Division**
Provides assurance on the effectiveness of governance, risk management, and internal controls, including the effectiveness of the first and second lines of defense
We DO

• Look at academic, research, and administrative processes to evaluate if these processes are working properly to control risk.

• Perform operations, information technology, and compliance audits and advising.

• Make recommendations to improve processes and encourage management to adopt these recommendations.

• Offer insight to assist MIT’s managers as they develop new or improved processes – based on best practices, recognized standards, and our experience across the Institute.
We DON’T

• Develop MIT’s policies — that’s the role of managers on campus and at Lincoln Laboratory.

• Implement the recommendations we make — that’s also the role of managers on campus and at Lincoln Laboratory.

• Perform Institute-wide financial statement audits — that’s the role of external audit firm PriceWaterhouseCoopers.

• Define the Institute’s risk factors or put processes and controls in place – that’s the role of Risk Management and Compliance Services as well as managers on campus and at Lincoln Laboratory.

• Report to federal agencies to assure effective oversight of public funds — that’s the role of the Defense Contract Audit Agency, Offices of the Inspector General, and other entities.
Is internal audit unique to MIT? **NO**

- Boston College
- Boston University
- Brown University
- California Institute of Technology
- Columbia University
- Cornell University
- Duke University
- Emory University
- Harvard University
- University of Pennsylvania
- Princeton University
- Rochester Institute of Technology
- University of Rochester
- Rutgers University
- Stanford University
- Syracuse University
- Tufts University
- Washington University, St. Louis
- Vanderbilt University
- University of Vermont
- Yale University
- University of Washington
- University of Virginia

*All Members of the IVY+*
How We Select Our Audits

Each year, we choose which processes to audit by evaluating several factors:

• Risk to MIT
• Input from management
• Emerging challenges within higher education
• External forces

Risk and Audit Committee approves our audit plan
How We Audit

- Collaborate with you to understand your high-level objectives and processes
- Evaluate the risks – safety, operational, behavior, financial, and compliance – that you face as you work toward these objectives
- Test the adequacy and effectiveness of the controls and processes you have in place to manage those risks
- We publish an report that includes an overall rating, a list of recommended improvements (if any), and your management action plan

Satisfactory - Needs Improvement - Unsatisfactory
Standards of Audit Practice

• Code of Ethics and *International Standards for Professional Practice of Internal Auditing*

In 2016, an outside firm audited us and we received a top rating.
Our Team

❖ 21 professional certifications
❖ 23 undergraduate/graduate degrees

Mike Moody
Martha Jane Gagnon
Vesna Zaccheo
Michelle Jackson
Kim Ahern
Carter Stubbs
Erin Coates
Suwen Duan
Kallie Firestone
Tara Fournier
Jie Jiao
Prachee Kulkarni
Bob Monteith
Nichole Valois
Antwon Ward
Emma Bagshaw

Audit Division
Five Keys to Prudent Fiscal Management

• **Oversight and Monitoring**
  • A repeatable process to regularly and timely review activities and communicate and resolve issues.
    • Key control activity to ensure problems are detected early by management
    • Essential to ensure compliance (costs are allowable, allocable, consistently applied and documented)
  • **FRC (Financial Review and Control).** A person familiar with activity on an MIT cost object reviews monthly transactions on a cost object as part of the overall system of internal controls. Management provides necessary oversight of this activity.
  • Management controls (approvals and verifications)
    • Review and approval of travel (Concur)
    • Review and approval of purchases (Pcards, B2P, PO etc.)
Five Keys to Prudent Fiscal Management

• **Segregation of Duties**
  
  Segregation of duties (SoD) is an internal control where at least two individuals are responsible for the separate parts of any task. An individual should not have responsibility for more than one of the three transaction components: authorization, custody, and record keeping.

  • Verifier and Pcard holder should not be the same person
  • Verifier should not use cards for which they verify charges
  • Person performing statement review different from the person procuring on the cost object (unless secondary review is performed)
  • Travel reports reviewed by secondary administrator/supervisor
Five Keys to Prudent Fiscal Management

- **Systems/Applications**
  - Systems/applications process information based on specific inputs and authorizations.
    - Established for specific processes within Institute procurement functions; paying faculty and staff, and accounting for revenues, expenditures, and other dynamics depicted on the Institute’s financial statements.
    - Utilization of systems can improve the efficiency and effectiveness of the operations and enable easy sharing and management of information and data
      - Adequately assign and update roles in the system (spend and commit)
      - eDACCA, Concur, B2P
Five Keys to Prudent Fiscal Management

- **Training and Education**
  - Development of skills and knowledge that relate to specific useful competencies.
  - To ensure consistent knowledge of process, procedures, regulations, and/or guidance
    - Understanding of MIT Policies and Federal and other external guidance
    - Knowledge of methodologies for procuring and review is articulated and understood throughout the DLC
Five Keys to Prudent Fiscal Management

**Written Procedures**
- Policies and procedures provide direction for day-to-day operations.
- Communicate expectations, processes or procedures within the DLC for consistency in application across functions and staff.
  - Documented procedures streamline internal processes, ensure compliance with regulations and assist in decision-making
    - Adequate termination procedures for employees and temporary staff (cancel Pcards or Travel cards, remove access)
    - Statement Review – 100% or Risk Based?
    - Salary Certification – Direct or Proxy; who/how monitored?
Detecting Irregularities

- **Financial Review & Control (FRC)**
  - Make sure costs are reasonable & applicable to the award or cost object
  - Identify and resolve variances early

- **Pcard charges**
  - Verified timely and question “suspicious” or “unusual” purchases

- **Travel Costs:**
  - Review for unusual costs (that appear not business related and justified)

- **Segregation of Duties**
  - Secondary review of cost objects when SoDs are not present
  - When person performing statement review is the same as person procuring on the cost object
Detecting Irregularities

• **Perform an analysis of**
  • Portfolio of cost objects and transactions
  • Unusual patterns (purchase volume changes)
  • Large purchases (over “typical” volume of general supplies i.e. hard drives, toner cartridges)
  • Unexpensed travel
  • Overruns on cost objects
  • Duplicate transactions (i.e. RFPs)

• **Review roles (at least annually)**
For more information

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