

Special points of interest:

- Meet the Internal Audit Team
- Protecting the church's resources
- It Could Happen to You!

The Inside View

A Publication of the Internal Audit Department
<http://www.gcfa.org/internalaudit.html>

Meet the Internal Audit Department

Hello Everyone,

My name is Dennis Belton. On behalf of the GCFA Internal Audit Department, I would like to welcome you to the first issue of the Internal Audit Newsletter, *The Inside View*. This newsletter, which we hope to distribute quarterly, will focus not only on control and governance topics, but on topics that will provide information on everyday issues that you may encounter in the local church, annual conference or general agency.

DISCIPLINARY RESPONSIBILITY

The Internal Audit Department which is housed at the General Council on Finance and Administration (GCFA), came into existence at the 1996 General Conference. Per ¶ 806.6 of the 2004 Discipline, the Internal Audit Department is responsible for conducting internal audits for those entities receiving general church funds. (¶ 810.2) The Internal Audit Department has also done audit and consulting work for some entities that don't receive general church funds. (i.e. Annual Conferences)

SO WHAT IS INTERNAL AUDITING?

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 the effectiveness of risk management, control, and governance processes. The objectives of internal auditing are to assist directors and management of recipient organizations receiving general church funds in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed, and by promoting effective control at reasonable cost.

INTERNAL AUDIT STAFF

The Internal Audit department consists of the following:

- Dennis Belton – Director, Internal Audit
- Alberto Peña – Internal Audit Manager
- Lauranette Ford – Senior Internal Auditor
- Reggie Farris – Assistant to the Director of Internal Audit

Again, we would like to thank you for taking the time to read our newsletter. If we can be of assistance please contact us!!



Executive Summary, 2006 ACFE Report to the Nation on Occupational Fraud & Abuse, a Supplement to *Fraud Magazine*

This study is based on data compiled from 1,134 cases of occupational fraud that were investigated between January 2004 and January 2006. Information from each case was reported by a Certified Fraud Examiner who investigated the case.

Occupational fraud and abuse imposes enormous cost on organizations. The median loss caused by the occupational frauds in this study was \$159,000. Nearly one quarter of the cases caused as least \$1 million in losses and nine cases caused losses of \$1 billion or more.

Occupational fraud schemes can be very difficult to detect. The median length of the schemes in our study was 18 months from the time the fraud began until the time it was detected.

Certain anti-fraud controls can have a measurable impact on an organization's exposure to fraud. In the cases we reviewed, organizations that had anonymous fraud hotlines suffered a median loss of \$100,000, whereas organizations without hotlines had a median loss of \$200,000. We found similar reductions in fraud losses for organizations that had internal audit departments, that regularly performed surprise audits, and that conducted anti-fraud training for their employees and managers.

This Report includes organizations representing a wide range of industries. The industries with the highest median losses per scheme were wholesale trade (\$1 million), construction (\$500,000) and manufacturing (\$413,000). Government organizations (\$82,000) and retail organizations (\$80,000) were among those with the lowest median losses.

The size of the loss caused by occupational fraud is strongly related to the position of the perpetrator. Frauds committed by owners or executives caused a median loss of \$1 million. This is nearly five times more than the median loss caused by managers and almost 13 times as large as the median loss caused by employees.

Most of the occupational fraud schemes in our study involved either the accounting department or upper management. Just over 30% of the occupational frauds were committed by employees in the accounting department, and slightly more than 20% were committed by upper management or executive-level employees. The next most commonly cited department was sales, which accounted for 14% of the cases in our study.

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Segregation of Duties By Dennis Belton

Segregation of duties is an important control that all organizations should continually evaluate. Adequate segregation of duties reduces the likelihood that errors and/or omissions (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed. The premise underlying segregation of duties is that no one employee or group of employees should be in a position both to perpetrate and conceal errors or irregularities in the normal course of their duties. In general, the principal incompatible duties to be segregated are: authorization, custody of assets, and recording or reporting of transactions. In addition, a control over the processing of a transaction generally should not be performed by the same individual responsible for recording or reporting the transaction.

We will focus on segregation of duties for different operations of an organization in upcoming newsletter articles.

Did You Know?

After December 31, 2006, the United States Western Hemisphere Travel Initiative (WHTI) will require travelers, including US citizens, to present a passport when entering or re-entering the United States by air. Congress originally set January 1, 2008, as the date that all individuals entering the United States from other countries in the Western Hemisphere would be required to have a passport. Congress has extended the deadline for land and sea travel to June 1, 2009, due to concerns raised by the travel industry. This extension was part of the appropriations bill for the Department of Homeland Security.

Leadership's Role: Protect the Church's Resources By Dennis Belton

Protecting a church's assets is one of the important responsibilities of its leaders. However, many churches suffer from a weak internal control system. One component of effective internal control is safeguarding assets.

Consider these questions:

1. Does a separation of responsibilities exist between authorization of transactions, recording of transactions and custody of assets? A different individual should handle each of these three items.
2. Does the church carry a blanket fidelity bond covering all employees and volunteers?
3. Is the weekly church offering counted by at least two people not of the immediate family?
4. Does your church encourage the use of offering envelopes? Do the money counters compare the contents of the envelopes to the amount on the envelope?
5. Are checks received endorsed as quickly as possible?
6. Is the offering deposited in the bank as soon as possible? Is it held in a safe while at the church?
7. Do persons who are not responsible for accounting

records receive the mail and incoming contributions?

8. Are all purchases over a certain amount pre-approved by an authorized person? Is a purchase order system used?
9. Does an authorized person approve invoices for goods and services?
10. Are all disbursements made via numbered checks? Is supporting documentation reviewed before checks are signed? Are checks signed by more than one person?
11. Does a person who is not involved in writing checks prepare bank account reconciliations?

If these items are addressed and controls implemented it will be a good start to having an overall level of internal control that is appropriate.

It Could Happen to You! By Bob McCloud, CFE, CGFM

Have you ever been approached at a sporting event or the airport by individuals offering a tote bag, T-shirt, or blanket if you would only apply for their credit card? It only takes about five minutes and you give them private information including your social security number, address, and drivers license number.

A few years ago, I was traveling out west and arrived for a connecting flight at Phoenix, Arizona. Wanting to get another gift for my kids, I agreed and completed a credit card application for which my wife and I received two T-shirts. I included the above information on my application and never gave it another thought. Who would think this information could be mishandled by one of the largest credit card companies in the United States?

Naive and Shocked! You bet!

Two months later, I attended an ACFE conference. Casually walking through the "Exhibitors Hall," I was asked by a credit card software protection company if I would mind trying their product? I simply keyed my name and social security number. My immediate credit history appeared and to my surprise an application for a loan using my social security number in Los Angeles, CA appeared. The loan had been denied since the land for the loan was a vacant property and the last name used was "Turk." Not even close to my name or my residence in a large southern city.

I contacted the loan company. A representative stated the individual who filed the application was never heard from again after the initial filing. The individual thought they could quickly get the money and disappear before the scam was detected the same day. The individual stated they would return but never reappeared to the loan company.

I was extremely lucky! My credit and name could have been extremely damaged. I am now more proactive in protecting my identity. Annually, I check my free credit report: www.annualcreditreport.com, 877-322-8228, the form can be downloaded at www.ftc.gov/credit. You can get advice as how to handle verification or disputes of facts on your report. In addition, for a fee, credit monitoring services will alert you to changes in your credit scores. One monitoring service is on the web at: www.fightidentitytheft.com/credit_report.html

I hope this story didn't bore you. It has caused me to think ahead about who my personal information is given and I hope it will do the same for you.

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Thought of the Day!

Watch your thoughts; they become words.
Watch your words; they become actions.
Watch your actions; they become habits.
Watch your habits; they become character.
Watch your character; it becomes your destiny.

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