College & University
AUDITOR

When Interviews Turn Fatal

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Association of College & University Auditors

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College & University AUDITOR

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Introducing the Publications Team

By J. Betsy Bowers, CIA, CFE, CGFM, CIG

Can you remember trying on your parents' shoes when you were a child? How big those shoes were to you when you placed your tiny foot in them? You thought your feet would never grow that large, much less fit. That is how I feel right now. Our previous editor, Vicki Escalera, did a superb job, set high standards and brought the *CandU Auditor* into the 21st century with a bang! Trying to fill Vicki's shoes reminds me of those childhood days. I will do my best to honor those standards, address your needs and pique your interest in each issue.

I have been a member of ACUA since the early 1980s and have watched our publication grow from an eight-page newsletter (*The Ledger*) to a full-blown 25+ page journalistic magazine (*CandU Auditor*). Therefore, the *CandU Auditor* depends greatly upon your input to be a successful publication. Your ideas, articles, and contributions are what *make* this magazine. Accordingly, I am asking you to help us by letting the editorial staff know of items you could submit. Are you teaching or working on an advanced degree? If so, have you conducted research, written papers or made presentations related to the auditing world? Is your office staff performing some "cutting-edge" technique or have you found ways to streamline operations? Let us know; any of these topics could make excellent articles for our publication.

The ACUA Board in its wisdom has approved an expanded structure for our magazine. Below is a brief overview of the publication team's job descriptions, and we can always use additional volunteers to assist us.

Managing Editor (Betsy Bowers, University of West Florida): Oversight of entire publication. Sets deadlines and follows up with the other editors. Works directly with staff and volunteers. Makes the final publication decisions. Writes an editorial for each issue.

Feature Editor (Betty Favor, Old Dominion University): Solicits and receives the feature articles from the five strategic areas and other topics, reviews them, recommends three or four to the editor. Once the features for an issue are selected, the feature editor works with authors on getting the articles ready for publication. Finalized articles are then submitted to the managing editor.

Department Editor, Association News (Tracy Holter, University of Phoenix): Solicits, receives and reviews the articles submitted by the various departments: president, headquarters, letters to the editor, financial reports, ABACUS, Best Practice, etc. Finalizes articles for publication and forwards to managing editor.

Org chart:
- Editor — Betsy Bowers — University of West Florida
- Executive Director — Loma Bolduc — Association Resources
- Features Editor — Betty Favor — Old Dominion University
- Department Editor Association News — Tracy Holder — University of Phoenix
- Department Editor Membership — Sandra Fischer — Creighton University
- Contributing Editors & Board Members — 5 Strategic Initiatives and Past Presidents
- Proofing Team — Stacy Bozeman, Auburn University; Ken Chambers, Florida State University; Virginia Key, University of Montana
- Education — Kathleen Miller — Weber State University
- Information Exchange — Wendy Lockwood — Syracuse University
- Promotion of Internal Audit Function — Sterling Roth — University of Alabama, Huntsville
- Emerging Issues — Jacob Godfrey — University of California, Irvine
- Association Outreach — Jeff Jarvis — University of California, Irvine
- Past Presidents — Ray Cochran — Columbia University

The President's View

By J. Michael Peppers, President

Through the course of our lives, we all play many roles. Some roles are chosen for us, but many others may be chosen *by* us. So it is in our professional roles of internal auditors. Our standards outline certain obligations…our boards, audit committees or members of executive management will set directives and charges for us…our auditees will have various expectations on each engagement. Yet, it is my experience and belief that we auditors still have a very large part in the control of our destinies.

We're all aware of the auditor stereotypes…and none of them are very flattering. As I have had recent opportunities to interact with other higher education association leaders, I am struck by the continued lack of understanding of today's internal auditor's role. Even among ourselves, when we network at our conferences and seminars or on the ACUA-L, we learn that "within our own ranks" there are many different philosophies about the roles of internal auditors. We have solid traditionalists, progressive envelope-pushers and everything in between. It can be a challenge for an association like ACUA to try and capture the sense and direction of its membership in broad matters like these. Your Board, however, is trying to do just that as we move forward in two of our strate-

gic objectives: *promotion of the internal audit function in higher education* and *association outreach*. In these efforts, we are attempting to do some aggressive promotion on behalf of the membership as well as equip you to become better at explaining and promoting the value your function adds to your institution. Recent events in the tragic collapse of the Enron Corporation have provided internal auditors with new opportunities to discuss the importance of our roles with our boards, management and audit committees. If you consider yourself to be on the forefront of one or more areas of effective and innovative audit, compliance or risk management activities, please communicate directly with me about that so I can capture as many "success stories" as possible. I will keep you posted on our efforts.

It is hard for me to comprehend that we are now halfway through our operational year for ACUA. At our upcoming Midyear meeting, the Board will formally assess our progress on the many strategic initiatives the membership approved last September. Some are discussed in this issue. Thank you to everyone who responded to our call for volunteers to help with those efforts. We now have over 60 people on-call and willing to help. Some of those have already been enlisted to help in various capacities and the others will be contacted soon.

With this issue of the *CandU Auditor*, we recognize the change of its editorial leadership from Victoria Escalera (Brown University) to Betsy Bowers (University of West Florida). At the Annual Business Meeting in Orlando, I shared that Vicki (also a current Board Member-at-Large) had expressed her need to step down as chair of our Publications Committee and editor of the magazine. I knew it was going to be a very hard job to find someone who could capably follow Vicki's excellent leadership in this area and continue the great strides she has made in our flagship publication. *Thank you, Vicki!* But I was pleased to accomplish that task in January with the appointment of Betsy to these posts. I've known Betsy for a long time…but the ACUA community also knows her very well. She has been an active ACUA member for more than 20 years. I know from personal observation that Betsy was being creative and putting a positive publications and "PR" touch on her audit work long before that was in vogue. She will bring excellent oversight to our publications activities. Please join me in thanking Betsy for taking on this critical position in our association. I assured her that she could count on you. When she puts out a call and asks for submissions or other assistance, please come forward. You can be very proud to have your work pub-

Department Editor, Membership (Sandra Fischer, Creighton University): Solicits and gathers information on the members, works with Headquarters on securing new member list and other member news, letters to the editor, handles such articles as Word to the Wise, Heard on ACUA-L, conference promotions, etc. Finalizes articles for publication and forwards to managing editor.

Contributing Editors (There are several): Works with the people who are doing the leg work in the five strategic areas. Solicit articles in their areas, suggest topics to the authors, review first drafts to make sure the material is appropriate and what they had in mind, work with authors for any editorial changes, and forward items to the managing editor. Our contributing editors are as follows:

- **Education** (Kathleen Miller, Weber State University)
- **Promotion of Internal Auditing in Higher Ed** (Sterling Roth, University of Alabama, Huntsville)
- **Association News** (Jeff Jarvis, University of California, Irvine)
- **Information Exchange** (Wendy Lockwood, Syracuse University)
- **Emerging Issues** (Jacob Godfrey, University of California, Irvine)
- **Past Presidents** (Ray Cochran, Columbia University)

Proofing Team: (Stacy Bozeman, Auburn University, Ken Chambers, Florida State University, and Virginia Key, University of Montana) They will proofread and review publication for consistency of punctuation and word usage throughout the magazine. (It's amazing how many different ways certain words such as "midyear" and "Web site" can be written, for example.) The keen eyes of our proofing team will greatly enhance our publication.

We hope you enjoy this issue, and we look forward to your input in future issues. As always, we thank you for your great support of ACUA!

LETTERS *to the Editor*

Retiring Editor Receives Kudos

Dear Editor:
I just wanted to thank Vicki Escalera for all of her hard work in making the *CandU Auditor* such an informative publication. Being relatively new to higher ed, I thoroughly appreciate all of the excellent articles written by fellow ACUA members and gain a lot of information from all of them.

In particular, I thought the December 2001 issue was excellent as this was the first issue I read after attending my first ACUA conference. I could relate, first-hand, to much of what was included.

I rarely read any publication word for word from cover to cover, but thanks to Vicki, I do read every word of the *CandU Auditor*! It is apparent that a lot of hard work goes into this publication and I just wanted to thank Vicki for all that she has done to make the *CandU Auditor* such an excellent publication.

Anthony Cedrone, senior internal Auditor, Hofstra University

Dear Editor:
The December 2001 issue of *CandU Auditor* was a winner in my book! What more timely and topical subjects could there be than system implementation, risk assessment, ACUA-L, and strategic planning? The issue's overall relevance and excellence made it required reading in our shop.

The authors and contributors obviously know their business. But crafting and packaging such a fine end product are in the editor's bailiwick. Vicki Escalera has repeatedly excelled in that capacity. She has, as they say in Alabama, "good old-fashioned horse sense," and knows something about "sticking to her knitting."

She also obviously knows a lot about adding value! The magazine is a credit to our organization.

Sterling Roth, director of Internal Audit, The Univ. of Alabama, Huntsville

Dear Editor:
I wanted to say how much I enjoyed the December issue of *CandU Auditor*. It was jam-packed with good articles—great job! Thanks to Vicki Escalera and members from the administrative office. Thanks also to the people who submitted the terrific articles such as Rob Clark, Susan Kennedy and Mary Barnett. I often find articles of interest from time to time, but never this many in one issue—thanks!

Brenda Shannon, director of Audit Services, New Mexico State University

Dear ACUA Members:
Vicki Escalera did an excellent job this past year in recognizing hot topics and soliciting articles from those individuals with expertise and experience who were willing to share their wisdom. Our goal is to produce the best university-oriented auditor magazine possible. In the coming year, I'm confident Betsy Bowers will continue the efforts put forth by Vicki, but we'll need the help of all ACUA members. Don't be surprised if you get a call or e-mail asking for your input on an article based on current issues being discussed on the ACUA-L. We won't be shy about asking, and I hope you won't be shy about sharing.

Jeff Jarvis, CPC, principal auditor, University of California, Irvine
CandU Auditor Contributing Editor, Association Outreach

When Interviews Turn Fatal

Hey—I Didn't Sign Up for This! I'm Supposed to be Assigned to the Nice Adults, with the Nice People!

By Arthur A. Hayes, Jr., CPA, JD, MBA, Director of State Audit, Tennessee Comptroller of the Treasury

It was my privilege to be a part of the ACUA annual conference in Orlando last year. During my fraud presentation, I was talking about the dark side of auditing, including when subjects of investigations threaten or actually commit suicide. I was asked a question from the audience, which I had never been asked before: *how does the auditor deal with such a psychologically traumatic experience*? What an excellent question! Taken aback, I remember responding with thoughts off the top of my head, but the question lingered with me. After giving it more thought, I would like to share some ideas that might assist you should you ever face such a situation.

Before becoming an auditor I practiced law and served as a counterintelligence agent in the U.S. Army. As a result I had already had extensive interview experience in a number of tight situations. In fact, the first time the subject of an investigation threatened to commit suicide during an interview, I didn't give it too much thought. I calmed her down and we finished the interview. Fortunately, she never acted on her threat; however, sometimes things do not work out so well. Once, after having given a confession during an interview I conducted, a woman called me saying she had taken an overdose of sleeping pills because of me. Immediately, I called 911 and luckily the paramedics got to her in time. She survived and later went to prison.

Sadly, other interviews have not always ended so positively. Three deaths have occurred during investigations my office conducted. Even higher education is not exempt from these tragedies. For example, a few hours after being interviewed by my staff the perpetrator, a college employee, committed suicide. During the interview, he did not appear disturbed; however, after the interview he returned to his office, cleaned it up, then went home and killed himself. His colleagues had thought it was odd that he had cleaned his office, since it had always been very messy up to that point.

Fortunately, suicides during investigations are very rare. Regrettably, it does happen. The tricky part of interviewing is *never* knowing when someone may have been pushed too far. As auditors and investigators, our job is frequently to push people as far as it takes, within legal constraints, to learn the truth. Unfortunately, the truth can be a very painful thing. I often tell my classes it is not lies that hurt, but the truth. In fact, we often tell the worst lies because the truth would be painful to someone who trusted us.

Just *how rough* can things get when fraud indicators (a.k.a. a fraud audit) are detected? As noted above, suicides and threats of suicide are not out of the question. As an auditor, you may never have to face a fraud scenario. Even if you do, you may never interview someone who mentions suicide as the only alternative. The chances that someone will actually commit suicide to avoid prosecution are even more remote. Auditors have a responsibility to detect material fraud. Audit steps are designed to cast light on fraudulent activities. By preparing for the worst-case scenario, auditors can maintain focus when extreme situations occur. It is when things seem to be going fine and there is no reason to be alarmed that we let our guard down relative to fraud. Professional skepticism should begin upon acceptance of the engagement, not after troubling information arises.

The Players: The fraud investigation scenario involves two key players: the auditor (whom I call the *frauditor*) and the perpetrator (*frauder*). Ground zero of the audit is when the frauditor and the frauder meet face to face.

What is a *frauditor*? It is the auditor seeking fraud. Frauditors must be prepared for the emotional rigors of a fraud audit; however, he or she may be unprepared for the conflict and tension that such engagements involve.

What is the primary impediment to detecting fraud? It is management and frauditor *denial*. This denial can be categorized into three subsets, each dealing with expectations:

1. Diminished expectations for fraud occurring on their watch

- Frauditors think: *"It can't happen here! Fraud happens at other places. Besides, I didn't sign up for this, I signed up for the nice auditing! I want to work where people are pleasant, polite and honest."*

We can clearly be lulled into this type of denial in a higher education setting. After all, this is a place of learning. We do not sell commodities here! We do not have the risks here that exist in the "outside world." We do not come into contact with street criminals. We are in nice places, with people who are cultured and refined.

The Reality: How often fraud occurs in higher education would surprise many people.

2. Distorted expectations relative to the perpetrator (frauder)

- Frauditors expect perpetrators to be patently evil-looking creatures. The frauder certainly could not be someone we know. Our colleagues are people who appear more interested in ideas and intellectual debates than petty larceny.

The Reality: In truth, many fraud perpetrators otherwise appear to be nice acting people. They are not the hardened street criminals we see on police shows. In fact, our fraud perpetrators have consciences. They have rationalized their actions to minimize their guilt. Furthermore, they have erected psychological barriers to avoid focusing on the consequences of their actions. However, these barriers are often paper-thin. Deep down the frauders realize the terrible consequences they will face: loss of reputation, loss of wages, embarrassment and, ulti-

mately, the end of their career. In truth, these people are often very fragile emotionally. Their lives are already dysfunctional. Now they have lost whatever support system they might have enjoyed.

While criminals with limited education and minimal jobs have little to lose from detection and prosecution, white-collar criminals frequently have much to lose. If they stole government funds or assets, their downfall may be highly publicized, which could be devastating. The frauder was probably able to commit his crimes because he had the trust of others and enjoyed a position of responsibility.

3. Delusional expectations about how disturbing a fraud audit can become.

- This problem is double-edged. On one hand, frauditors may have a very unrealistic view of just how bad it can get. The frauditor would never expect fraud to involve life or death situations. It is just accounting, for crying out loud! Consequently, we are not ready for the rigors of a fraud investigation. We lose our focus and control when faced with unexpected difficulties.

The Reality: On the other hand, the auditor may actually have an inkling of how bad it can get. He does everything he can, consciously or unconsciously, to avoid these situations, including looking the other way. By only seeing "control weaknesses" or "immaterial noncompliance with cash receipting policies," the frauditor may avoid delving into what the total picture may be.

The Convergence: So, what happens when we combine these two players? I will discuss four scenarios:

Scenario One: A hardened frauder (perpetrator) vs. a prepared frauditor (auditor)

- *Results:* This is a fair fight but it will be tough. The frauditor will

have to work hard to succeed. He must keep his eyes open and maintain focus.

Scenario Two: A hardened frauder vs. an unprepared frauditor

- *Results:* This is not a fair fight. In fact, it is no fight at all! The aggression or tenacity of the perpetrator (frauder) may overwhelm a frauditor. In fact, the unprepared frauditor may not even realize he is in a fraud struggle. The frauditor may be off balance, easily distracted and unfocused. He will try to avoid a fight. He may just be happy to escape from the engagement in tact.

But, there is some good news. The frauditor may become concerned about the perpetrator's defensiveness and delve into areas that have not been otherwise examined. On the other hand, he may be less tenacious than a frauditor who is more prepared.

Scenario Three: A fragile frauder vs. a prepared frauditor

- *Results:* This is also not a fair fight. Nonetheless, the advantage goes to the frauditor in this case. The prepared frauditor has a sense for appropriately reacting to the plight of the frauder. When the frauder (perpetrator) displays vulnerability, the frauditor applies the proper mixture of empathy and firmness to move the perpetrator through the confession.

The downside is the prepared frauditor might be insensitive to the frauder's pain and fail to utilize empathy to encourage the perpetrator to confess.

Scenario Four: A fragile frauder vs. an unprepared frauditor

- *Results:* This is a real psychodrama. It can quickly get very ugly. The perpetrator falls apart, maybe even mentioning suicide. The

frauditor is not ready for the psychological responses of the frauder and may become flustered. The frauditor's lack of preparation and anticipation of such emotional reactions may cause him to lose focus. Empathy may give way to sympathy. The frauditor may go too far in trying to comfort the perpetrator by inappropriately minimizing the fraud's seriousness and its consequences. If the frauder commits suicide, the frauditor may feel guilty.

So what does a good frauditor do to avoid scenarios two and four? Here are some tools to guide you through these interviews.

General Approaches to Any Subject Interview:

1. Preparation. A frauditor cannot be over prepared. Normally, there is only *one* opportunity to interview the subject, so be as prepared as possible. In addition to the usual preparation (e.g., developing collateral evidence, preparing questions, and assembling potential interview exhibits, etc.), you should try to understand the relative emotional habits of the interviewee. Is he or she prone to become excitable, hostile, or defensive? Is there anything else going on in his life that might contribute to an unstable emotional status, such as a recent personal setback like divorce?

2. Empathy. It is important to show empathy but not feel it. Empathy is important in any interview, but particularly in subject interviews. People tend to be more relaxed and open to others who seem to identify with their circumstances and understand them, rather than those who appear to be judgmental. The heightened emotions and guilt felt by the subject of a fraud interview increases the need for a sympathetic frauditor.

3. Themes. Except for a true sociopath, he will have had to rationalize his unlawful actions to himself. The most com-

mon "rational lie" a thief uses is that he is just "borrowing" the money. The skilled interviewer suggests these themes to the subject for three reasons. First, this approach tends to minimize the seriousness of the perpetrator's actions, making them look less evil and more normal. Second, by taking this approach the interviewer shows the subject that he really does understand how this could have happened to anybody. Third, by repeating to the subject the same themes he told himself when committing the crimes, the frauder perceives validation making it easier for him to relate to these statements and agree with the underlying facts.

Additional Strategies to Any Subject Interview

In addition to the general approaches to subject interviews, the interviewer should be prepared to use some additional strategies when the subject exhibits extreme emotional distress. I have found that it is sometimes easier to deal with a belligerent interviewee than one who begins to weep during the interview.

1. Remain calm. This is no time to fall apart. The defrauder may be looking to you for an appropriate reaction. If you exhibit uneasiness or uncertainty he may mirror your behavior or otherwise slip further into depression. A good technique is to tell them you have seen many situations like this before and that there is usually a good outcome.

2. Emphasize the positive, look to the future. When you are telling the subject that you have seen this kind of situation before, indicate that forgiveness is only possible when the truth is given. Tell him the first step to solving problems is to recognize them and lay them on the table. Further, you might comment that others interviewed felt much better after they got their problems off their chest and the act of confession was much less stressful than their continued efforts to conceal the crime. Tell the subject how others talked about being unable to sleep until after they confessed.

3. Keep him or her talking. Be flexible and be prepared to change the subject or react to extreme statements with tact and empathy.

4. Appropriately minimize the consequences of what they did by comparing it to much greater crimes, such as murder. Care must be taken not to condone the frauder's actions, but to emphasize that what he did is understandable.

5. Do not make any promises you cannot keep. With regard to the frauder's future employment and prosecution, explain others make these decisions. You can, and probably should, tell the subject that you will advise the decision makers of the interviewee's cooperation. Also, take that opportunity to explicitly state you will make that statement if you perceive the frauder has been totally honest with you, not just in responding to your direct questions, but also affirmatively informing you of any pertinent information you do not ask about. Additionally, confirm that the subject has told you the whole story. Point out that if you discover he has not told you everything or has otherwise misled you, the appropriate people will also be so informed.

6. Do not forget to get it all, get a confession now. Do not lose your concentration and feel like you should take it easy on the interviewee. If you leave loose ends out of sympathy, you may regret it later when you need to talk to him again and he refuses talk. In time, he will regain his composure and may harden his position, especially if he has been "lawyered up."

7. Confirm with the interviewee that the confession is voluntary and he knows what he is doing. If you have determined he has had some past emotional problems, ask him if he is currently on any medication that would impair his judgment or understanding about the interview. A written, signed statement should be included in the confession that

the perpetrator is speaking voluntarily. The statement should include an affirmation that he is not under any chemical or emotional impairment.

8. If the interviewee indicated that he is on medication that might impair his judgment, ask him specific questions to test the interviewee's present state of mind. Such questions would include:

- Do you understand the reason for the interview?

- If so, do you understand that I am an auditor investigating certain issues?

- Do you understand the seriousness of the interview and the issues in question?

- Do you understand that the comments you are making are "on the record" and will become part of my report?

- Do you understand that you can terminate the interview at any time?

Tactics for When Emotions Impede an Interview

In some circumstances, the frauder's emotions may become so overwhelming that the interview can't go on. What do you do? In these cases, perform the following.

- ➤ *Ask if he would like something to drink or would like to take a short break.* Many times the perpetrator will not want to break because he is in what amounts to a cathartic scenario. He will want to go ahead and get it over with. Just offering a break is enough to let him regain his composure.

- ➤ *Try to stay in control of the situation by having water, soda or other non-alcoholic drink brought in to the interview room.*

- ➤ *If he does want to take a break, try to keep it to a minimum amount of time.* Try to control his physical movements, by not allowing him to walk out and wander off.

- ➤ *Comfort him with a calming voice and have tissues available.* Assume body language that is supportive and open.

- ➤ *Minimize the embarrassment he may feel for breaking down in front of strangers.* Make sure that the interview room is relatively private

- ➤ *Do not violate any requests that he has.* If he wants someone else present, permit it. Many times it will not be a lawyer, but rather someone they feel a close personal bond with, such as a parent or minister. Try to control the situation by having the other person come to the interview room.

- ➤ *Honor any requests for privacy if the interviewee wants to speak to the other person alone.*

- ➤ *When the interview is over, don't just dump them!* Ask questions to gauge his emotional state:

  - Are you all right?

  - How are you going to get home?

  - Do you want someone to come and help get you home?

If his emotional state requires it, strongly recommend that he has someone come and get him. Stay with him until that person arrives.

- ➤ *Comfort him again; reassuring him that he did the right thing.* Encourage him to look to the future and view this as an opportunity for a fresh start.

- ➤ *Remind him of his support group—* friends, relatives, and ministers who will support him emotionally in his time of need, just as he would do for his friends and relatives.

When The Worst Happens

What if things go terribly wrong and the subject harms him or herself? How will you feel? What should you do?

1. **Each person reacts to such situations in different ways.** Many variables impact our reactions. Just

> **What if things go terribly wrong and the subject harms himself or herself? How will you feel? What should you do?**

thinking about how we might react is a lot different from the real situation.

2. **The more prepared you are before emotional interviews, the better you should feel afterward.** One can always second-guess oneself (e.g., *perhaps I could have done some things differently*). Remember, as a frauditor, you clearly cut down on the guesswork by having considered scenarios and actions before you are faced with a dilemma for which you had no time to prepare. Whatever you did, you did it better than you would have without preparation.

3. **Keep in mind you are not responsible for what *he* did.** You are not responsible for the original actions that brought down the defrauder.

4. **Try to maintain emotional and physical distance from him after the interview.** Do not take on the role of a mental healthcare professional, buddy or become part of his support group.

5. **Quit empathizing with him after the interview.** Do not dwell on his emotional state or plight. You have to stay focused on the case as it is prosecuted; but do not give into ruminations about what will become of him. Do not fall into the trap of the old "but for the grace of God there go I." You may have had some problems in the past and you may be able to relate to his situation, but you made better choices. Now get over it!

6. **Find positive ways to channel your anxiety over the case if necessary.** If you are so inclined, become

involved in social programs such as those that help ex-cons or the less fortunate. You may be able to serve as a great role model for someone who needs help to avoid making bad choices. Your experience can be a real asset to others.

Act Prudently

Finally, a couple of caveats that need to be made about this article.

I am *not* a mental health professional and I do not purport to have any special expertise on suicide prevention or dealing with depression or other emotional or psychological conditions. The tips provided in this article are based on my experiences. They are intended to provoke readers' interest in dealing with such situations so they may better prepare for interviews. The tips are not intended to serve as a model for any particular interview or situation. Each investigation is fact-specific and depends on many variables, not the least of which is the emotional stability of the subject and of the auditor. So the efficacy of any of these tips cannot be predicted. It is solely and exclusively the responsibility of the auditor/investigator to act prudently and to exercise independent professional judgment in deciding which approaches are best suited for any particular scenario.

> **In all cases, the auditor/investigator should remember that everyone is presumed innocent and is entitled to due process of law.**

The auditor/investigator should seek additional advice from appropriate people before implementing any particular strategy. In all cases, the auditor/investigator should remember that everyone is presumed innocent and is entitled to due pro-

cess of law. The auditor/investigator should seek legal counsel with regard to the legal rights of interviewees, particularly with regard to the issues of voluntaries and the protection of interviewees' state and federal constitutional rights. Although I am an attorney licensed in Tennessee, this article does not purport to provide any legal advice. Application of general legal concepts should be tempered with the realization that laws are state-specific. This article in no way suggests that anyone be held against their will, tricked into confessing to actions they did not commit or that the interviewer is justified in misrepresenting any information or facts to the interviewee.

About the Author

Art Hayes is the Director of the Division of State Audit in the Tennessee Comptroller's Office. He received a BS in psychology with honors from the University of Tennessee, an MBA from Tennessee State University and a JD from the University of Tennessee. Art received both a Diplomat American Board Forensic Examiners (DABFE) and Diplomat American Board of Forensics Accounting (DABFA) from the American College of Forensic Examiners. He served in the United States Army in Military Intelligence as a Counterintelligence Agent and a Polish linguist. He is also an eagle scout.

Art is a past member of the Executive Board of the Government Finance Officers Association (GFOA) and is still active by serving in numerous positions. He is on the executive committees of the National State Auditors Association and the Southeastern Intergovernmental Audit Forum. As a member of the Association of Governmental Accountants, he has served on the Awards committee and the Financial Management Standards committee (chair).

Art is also president of Hayesways, which provides lectures and training on audit and investigative issues. You can contact him at arthayes@att.net or visit www.hayesways.com.

> **ACUA conferences and seminars are still the best products and the best value for higher education audit training.**

lished in this journal. We'll even send you extra copies for your boss and your mother!

As you read this, many of us will be very near to departure for our Midyear Seminar in Myrtle Beach, SC. Mark Good and the educational group prepared an outstanding slate of presentations. They have added a session this year designed specifically for managers and directors. That means there will be something for everyone. I look forward to seeing many of you there.

The Winter Olympics in Salt Lake City are history… but that exciting location is now ready and waiting for ACUA to arrive! I have no doubt that we'll generate just as much excitement as the winter revelers did. You will hear more details very soon about our 46th Annual Conference there September 22-26, 2002. I've had a sneak peek at the educational programs and all that is being planned. I can assure you that you'll want to be there. ACUA conferences and seminars are still the best products and the best value for higher education audit training.

So, as you read this magazine and plan your daily or weekly activities, I encourage you to reflect on the roles you are playing as an internal auditor. Are you satisfied with them? Is your management satisfied? If your answers were a resounding "*yes!*," then let me know about them. If they were less certain, then look to ACUA as the great resource it is. This publication and our Web site can be starting points. Your Board members and committee chairs are always available to you. Please take us up on it. After all, "we're the auditors and we're here to help"…*really*, we are!

Myrtle Beach in April Is Looking Good!

By Lorna Bolduc, Executive Director

ACUA's Midyear Seminar in Myrtle Beach is right around the corner. The course descriptions are on the ACUA Web site and registration forms are rolling in. All we need now to ensure the seminar's success is *you.*

Is this program right for you? We believe it is because…

- The program offers continuing education credits and everyone needs those.

- The training is offered for topics you need when you need them.

- The training and networking will help ensure your professional success.

Have you ever read through the course offerings and thought, *"This is great, I wish I could go?"* or *"Here it is, exactly what I need!"* or, *"How did ACUA know what to put on the program?"* Well, here is a sneak peek at what goes on during program selection, which starts right after (and sometimes before) the current Midyear is over.

Volunteers (ACUA members), develop the educational program. Many hours are spent researching the programs they think will be the most valuable. They solicit input from the membership at large and review feedback from the most current seminars. Additional time is spent identifying the best instructors.

Those decisions are not always easy to make and the PEC (Professional Education Committee) does not take the task

Lorna Bolduc (left) and Karan Murray, our web assistant, collaborate on the Midyear Seminar registration material, which is now available on the ACUA Web site.

lightly. Even if the PEC knows the right person for the job, that person is not always available. When that happens, the PEC goes back into a huddle: is there someone else who's right for the job or do we develop a different track?

ACUA staff helps, but the majority of the direction comes from the volunteers. So, when you see our primary Midyear contacts Mark Good (Wake Forest University) and James Hodge (University of Tennessee-Knoxville) in Myrtle Beach in April, tell them "thanks" for all their work.

For information on the tracks that are being offered, go to www.acua.org and click on 2002 Midyear Seminar. You should find everything you need to know.

Location, Location, Location!

The East Coast offers several wonderful vacation spots and Myrtle Beach is one of our hottest. I've never been, but many from Connecticut vacation there regularly because of the wonderful beaches and great sunsets with lots to see and do. It should be a great place for relaxing after a full day of learning.

Scheduled for Monday night is transportation to "Broadway on the Beach." Shop 'til you drop, enjoy dinner at one of the many restaurants, and check out the nightclubs, which are conveniently grouped in one area for anyone interested in bar hopping. Then there is the IMAX, the aquarium, the butterfly pavilion, NASCAR Speedpark, Myrtle Waves Water Park, cinemas, and more.

Hope to see you there!

Establishing an Ethics Program at a Higher Education Institution

By Richard O. Traver, Executive Director of University Audits, at the University of Illinois at Urbana-Champaign

A few years after finishing my ACUA President responsibilities, I was appointed university ethics officer at the University of Illinois in addition to my duties as executive director for the Office of University Audits. The Illinois State legislature passed a statute which mandated all state agencies appoint an ethics officer. At the time there was little interest in dealing with ethics programs among most ACUA members. With the issuance of The IIA's *Practice Advisory 2130-1: Role of the Internal Audit Activity and Internal Auditor in the Ethical Culture of an Organization,* more internal auditors will have opportunities to get involved in ethics issues. The Practice Advisory states, "internal auditors...should take an active role in support of the organization's ethical culture." This article documents the initial steps taken to start an ethics program at the University of Illinois.

Responsibility

The ethics initiative should be led by someone who understands ethical issues and has a reputation for promoting proper business conduct. As such, the internal auditor should be the logical choice for the assignment. Internal auditors have experience in evaluating the internal control environment which includes evaluating the business conduct of the university community. It will not be a "leap of faith" for university leaders to visualize the in-

> **Internal auditors have experience in evaluating the internal control environment which includes evaluating the business conduct of the university community.**

ternal auditor as the facilitator of the ethics program. However, as stated in the Practice Advisory, "All people associated with the organization share some responsibility for the state of its ethical culture." The decentralization of the decision making process in many higher education institutions makes enhancing the ethical culture more critical. Each member of the university should become an advocate for proper business conduct.

Disseminating ethics information to your target audience is key to a successful ethics program. This article focuses on several ways (e.g., guidelines, sponsorship, code, training, website, and hotline) to increase the ethics awareness in the university community.

Guidelines

The development and distribution of an ethics handbook should be an early step in the creation of an ethics program. Providing basic guidelines for proper business conduct defines expectations and boundaries. The contents of *The Handbook for Good Ethical Practice for Faculty and Staff at the University of Illinois* (Handbook) provides an example of what a handbook may contain (see page 12).

The Handbook was drafted using other ethics handbooks as models. Special thanks goes to Betty McPhilmy, Northwestern University, for sharing her university's handbook.

A draft of the Handbook was e-mailed to all deans, directors and department heads at the University of Illinois to obtain their comments prior to publication. A copy of the final published Handbook was sent to every University of Illinois employee (26,000). Additionally, all personnel offices received enough copies of the Handbook for each new employee orientation packet for one year.

Sponsorship

Just as Susan Kennedy stated in her December 2001 *College and University Auditor* article, System Implementation Risk, "It is critical to the project's success, support and reception to have a championing executive leading the way. Enhancing the ethical culture through program development requires comparable support. Vision, funding, resource allocation, and cheerleading are needed. In the current economic climate of higher education institutions an Ethics Officer

may have to settle for vision and cheerleading support."

The Handbook also provides an opportunity for your sponsor to communicate the importance of having a good ethical workplace for the entire university community. The president of the University of Illinois introduced the Handbook to the University community in a message included in the Handbook (see below).

Code of Ethics

It has been established that institutions with a code of ethics operate in an ethically enhanced cultural environment. Therefore, with the printing of the second edition of the Handbook imminent, management decided to add a one-page Code of Ethics. During discussions with

> **The development and distribution of an ethics handbook should be an early step in the development of an ethics program.**

one of the campus Chancellor's regarding the goal of establishing a Code of Ethics, the major concern raised was that of ensuring proper campus representation. To address this concern, input will be solicited from all three campuses of the University of Illinois with the goal of establishing consensus rather than simply gathering comments, as was done with the

Handbook development. Codes of Ethics from other universities such as the University of Minnesota, will be used as a guide, rather than reinventing the wheel.

Training

Internal auditors have been involved in institutional training programs for a long time. We teach internal control techniques, control self-assessment and other related topics. Developing an ethics training course will contribute to the improved awareness of ethics issues on campus and perhaps to better business conduct. Teaching ethics can be fun. After providing some structure to begin a discussion on ethics, most attendees have questions that relate to their particular office environment. As internal auditors, most

Table of Contents

The table of contents for The Handbook for Good Ethical Practice for Faculty and Staff at the University of Illinois.

Dear Colleague:

Through the collective effort of our University community, working together in an atmosphere of trust and respect, the University of Illinois maintains its status as one of the leading universities in the nation. As stewards of the University's resources, faculty and staff must strive to uphold the standards of excellence that define our institution by making wise decisions and avoiding even the appearance of impropriety.

Because errors of judgment often result from a lack of information, we are providing you with this document. It contains a framework for proper employee conduct and briefly covers a variety of issues that constitute guidelines for conducting University activities with honesty and integrity and in compliance with the law. This booklet also contains additional resources and references to assist you in making sound judgments that not only further the interests of the University but also treat all members of our community fairly and respectfully.

Thank you for your cooperation and for your continued good work on behalf of the University of Illinois.

Sincerely,
James J. Stukel, President
University of Illinois

President's Message included in the Handbook.

of us have already seen business conduct that mirrors the content of most questions. Ethics allows us to broaden our response beyond the internal control involved to include the issues related to proper business conduct and the expectations of university administration. It has been my experience that people relate to ethics issues more readily than internal control issues.

Web site

The University of Illinois uses its ethics Web site (http://ethics.uillinois.edu) to communicate our presence and our mission to the university community. The Web site includes:

- a copy of our Handbook,

- relevant state statutes,

- forms for reporting economic interests to the Secretary of State,

- other resources for ethics information,

- and ethics humor (yes, we obtained permission from the cartoonist to use his cartoon).

Our Web site had 3,700 visitors (19,000 hits) in the last six months of 2001. Seven percent of the visits were from 20 countries other than the U.S. We continually work on the visual presentation of the site. Above is a copy of our current homepage.

Hotline

Some corporations have established hotlines to allow access to their ethics officers. Some internal auditors have experience with fraud hotlines or telephones lines to report bad business practices. The ethics hotline is similar in nature. The value- added message is that management cares about improving the working environment and employee conduct. It is critical to be staffed adequately with trained individuals in order to respond timely to all comments, inquiries and reports.

Resources

A full-time ethics officer in higher education institutions is a new concept. The
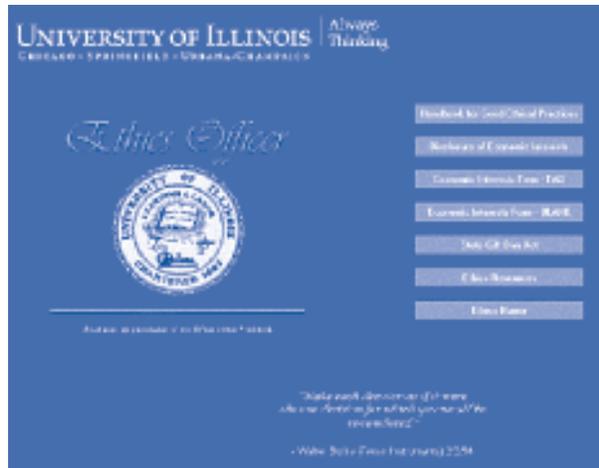
Above is a copy of the current homepage, (www.eoa.org).

corporate world has been leading the way. Just as ACUA supports our internal audit function in higher education, the Ethics Officer Association (EOA) supports the ethics functions in corporations and institutions. Like ACUA, the mission of the EOA is one of sharing information. Their Web site, www.eoa.org, provides access to many outstanding corporate sites, and their training programs for ethics officers and ethics office administrators are excellent.

As our roles and responsibilities at our institutions evolve and grow, challenging opportunities will present themselves. The new professional standards and practice advisories present new ways for internal auditors to add value. If enhancing your institution's ethical culture becomes one of your assignments, I wish you well in your new endeavor.

Promoting Internal Audit In Higher Education

By Marsha Payne, Immediate Past President

An enthusiastic and dedicated cadre of volunteers has begun brainstorming to develop the specific initiatives that will be undertaken in support of ACUA's strategic goal to promote internal audit in higher education. We have considered actions related to the following questions:
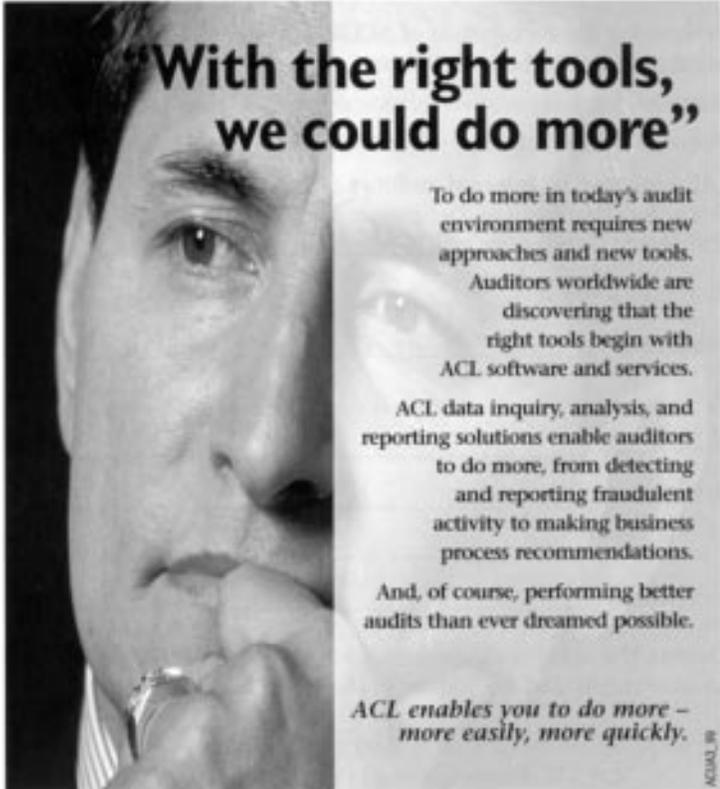
1. How can ACUA assist its members in articulating the value of Internal Audit to their own management or other constituencies?

2. How can ACUA best promote the Internal Audit function to colleges and universities that do not currently have the function within their organizations?

3. What role can ACUA and/or its individual members play in issues related to outsourcing the Internal Audit function?

Some of our group members have already undertaken actions at their own campuses, and have expressed a willingness to share their work and experiences with other ACUA members. Others have suggested revisions or updates to earlier ACUA initiatives, such as the ACUA internal controls video. Others have suggested preparing marketing materials that can be utilized by ACUA members on their own campuses, or similar materials to market the function to controllers and finance executives of institutions without Internal Audit. Others have suggested white papers or journal articles on issues related to outsourcing. As we continue our work, we will develop more specific goals, choosing those that we determine can be feasibly completed in a fairly short timeframe with volunteer efforts.

> Some of our group members have already undertaken actions at their own campuses and have expressed a willingness to share their work and experiences with other ACUA members.

The Challenges and Changes to the Skill Sets of IS Auditors

By Phillip Hurd, MS, CISA, CBM, Georgia Tech

Introduction

Information Systems (IS) have changed the way businesses operate and the way information is viewed. Not many years ago, assets were viewed in physical terms. Businesses had inventories, buildings, trucks, etc., but now information is a quintessential asset of any business. The information systems and data that travel on those systems are crucial to business success. IS auditors are needed resources to an organization because they possess the skills and expertise to objectively evaluate controls and point out risk. As technology grows, matures and changes, so must the role of IS auditors. The skill sets needed for tomorrow's IS auditors are different from those needed today. The skill sets needed for other auditors are changing to include an enhanced IS component. The future will bring geometric acceleration of technology. To be prepared for tomorrow's challenges, we must know the factors affecting the acceleration.

Examining history often provides lessons on change. Missed opportunities provide fascinating insight into change. The Chinese actually invented the printing press about 200 A.D. according to some accounts, but they did not see the practicality of movable type printing so the invention was abandoned. Over a thousand years would pass before Gutenberg invented a movable type press. That invention spawned a change in world culture. Just look at the developments occurring within the past five hundred years. What would have happened if the Chinese had followed through with the printing machine concept? Would the world be one millennium farther along technologically speaking?

The world again has reached a turning point. In 1947, another invention brought change to the world, the transistor.[1] The transistor revolutionized technology and the world began to change the way it conducted business. Electronic Numerical Integrator and Computer (ENIAC), the first modern computer, had less computing power than the calculator you can buy in any department store today. In 1946, *Popular Mechanics* reported that one day computers, may weigh as little as a ton and have only 1,000 vacuum tubes. Technology, thanks to the transistor, has advanced and changed the level of sophistication with almost every endeavor. Remember the H.G. Wells book *The Time Machine*? When a movie was made from it in the 1960s, the time machine was a clunky device that was controlled by two manual switches and a light. Technology, specifically transistors, had not yet become widespread in Hollywood's special effects. By 1985, about two decades later, Hollywood had seen the value in technology and had begun to apply it in many different ways. In a similar time travel movie, *Back to the Future*, the time machine was digitally controlled and had a full keyboard.

It is easy to see the difference that technology has made in popular media, but that is minor compared to the impact it has had on the business world. The truly important observation here is not so much the special effects wizardry but the time between invention and widespread application. Gutenberg's invention progressed for nearly 500 years before the full impacts were realized. In the case of the transistor, it has been dramatically shorter. Technology builds on itself. With a printing press, knowledge could be recorded and disseminated thus allowing many people to use the work and ideas of others to support their own efforts. With the invention of the transistor, the widespread effects are impacting our world much faster.

Traditional Audit Roles

The auditing profession has been around in various forms for several thousand years. The word "traditional" implies "not modern" so that term is unsatisfactory for the definition when applied to auditors and their skill sets. When research was conducted for the 2001 ACUA

Annual Conference on the roles of "Traditional" and "IS Auditors," there appeared to be a great divide between focus, definition and perception. Although many different skill sets exist for auditors, the conclusion reached was that the primary purpose of an auditor, regardless of the skill set, is to identify weakness, risk and/or lack of controls. The individual skill sets are needed because no single skill set can cover all scenarios.

During the ACUA Annual Conference session, the perception of auditor roles made the most dramatic impact. Many felt auditors with IS skill sets would become integrated auditors, which will be discussed later, and the need for IS auditors would be dramatically reduced. The perception of the IS skill set need is a subject of much debate. This article promotes some factors to consider when forming your perception. Many factors impact perception, so for a perception to be accurate those factors must be explained and explored. The culture of most industrialized countries, and certainly that is the case for all of ACUA's members, is one of technological growth. It is from that culture that the future of our profession will come. Turning our focus to a technologically enhanced culture we can see the quintessential elements that will shape the future of all auditors.

A Culture Shaped by Technology
An often-heard expression states "children are our future." Nothing could be truer. To begin to understand what the future holds for a profession, the children of a society hold the clues. Most of us grew up during an era when we remember technological innovations such as the introduction of the ever so challenging video game Pong. For those who have forgotten, Pong was a sort of virtual tennis match. There were two lines on either side of the screen and a "ball" that bounced back and forth. Pong seemed to be the most appealing technology on the market for quite a while but its not all that challenging by today's standards. And

today's standards are what will shape those entering the auditing profession in the years to come.

Today's children have a far different experience with technology than we did. Those growing up prior to 1980 learned the skills of manipulating a keyboard, mouse and monitor as an adult. Children today acquire those skills shortly after walking. Within Georgia all schools have some type of Internet access and the K-12 curriculum encompasses computer-focused education. Classes such as computer math and Internet skills are the norm, not the exception. This early familiarity with technology, its application and uses has created an enhanced technology skill set in young people. These skills will follow with them all their life and allow them to easily adapt to new technologies. This is good and demonstrates the cultural future will be technology driven.

When Robert Goddard first said he thought he could make rockets leave the atmosphere, he was ridiculed by some newspapers. Less than forty years later, men landed on the moon. Technological advancement is often the product of children who believe that they can do what they see.

Today's world technology culture is redefining the way many businesses operate. The modern computer processor's power is partially responsible. The logic applied to the vast majority of pre-1980 technologies reflected only the most basic capabilities of transistor-based logic. When IBM first released the Personal Computer (PC) and allowed other manufacturers to copy it, a revolution began. The power of the processor has grown to ultra large-scale integration and is a primary contributor to the growth of information systems as a business asset. The 8086 microprocessor, which was the brain of the first real IBM PC, had about 3,000 transistors on the chip. Does that seem like a large amount? The Pentium IV (© Intel) has over 55,000,000 transistors on a single chip. The first IBM

PC could run only one program at a time; the Pentium IV can run dozens.

Inventories are a great example of technology's influence on business. Twenty-five years ago, the average business would have to manually account for all items to learn if they needed to reorder. Sure there were procedures for determining appropriate order points, but the determination of product on hand was done manually. In 2002, a technically savvy business will not only have purchases automatically analyzed for reorder, they also can analyze within minutes of purchase the impact of that individual purchase. Frequency of purchase, profitability of the item, the habits of the purchaser and how that sale will impact the business are all possible in real-time thanks to the onset of asset tracking, management and control software/hardware. The impact of technology has been so great that the technology itself has now become a factor in a business' competitive advantage.

For all the wonders of technology there is a dark side. With the increase in ability comes the increase in liability. Technology has enhanced our abilities in all business aspects and brought many benefits to our institutions, but with that comes an increased liability. Software licensing is a great example of an area that has experienced a dramatic increase in liability. It is illegal to copy a textbook and most professors would balk at the thoughts of a photocopied textbook being used in class. The national average for software piracy is 25 percent, according to the *Business Software Alliance*. Why then do schools settle for 25 percent of their software to be pirated? Before you stop to say that does not happen at your school, visit www.cybercrime.gov and www.bsa.org. In addition to the staggering statistics and cases, look closely at how many higher education institutions were involved, directly or indirectly. Some software companies now include in the software license a "right to audit" clause.

Can you imagine a large corporation sending auditors into your organization to find illegal software? How do you think your president would react? Are you sure they would not find anything? Increased liability in our technology-charged culture is a reality. As auditors of all types (operational, financial, and IS), we stand as a vanguard of defense against that increased liability.

Technology has increased liability in many areas; three examples are identity theft, HIPAA, and the ever-popular FERPA. Identity (ID) theft is a growing concern. In a recent ID theft case,[2] due to a computer mix-up, student loan forms were routed to the wrong place and a professor's identity was stolen. ID theft takes only a few specific bits of data: name, date of birth, and social security number (SSN). How many institutions in the United States use a SSN to track students? Some schools use the SSN as the primary identifier. What risk or liability does the institution that allowed a leakage of information face?

The Health Insurance Portability and Accountability Act (HIPAA), passed in 1996, is intended to ensure appropriate protection of confidential healthcare information. The scope of HIPAA has a wide range. Provisions cover storage and transmission of data and have strict compliance requirements. Because of the electronic nature of medical records, the increase in attendance at institutions of higher education and the amount of institutions that have medical staff or medical research facilities, HIPAA is an area in which auditors with IS skill sets must be involved. What risk or liability does the institution that allowed a leakage of information face?

The Family Educational Rights and Privacy Act (FERPA) is a federal law designed to protect the privacy of a student's educational records. The law applies to all schools that receive funds under an applicable program of the U.S. Department of Education.[3] FERPA restricts information dissemination where educational records are concerned. The Act maintains that this sensitive student data must be safeguarded and not dissimilated to third parties. Educational records contain all the information needed for ID theft and other crimes. What risk or liability does the institution that allowed a leakage of information face?

FERPA, HIPAA, and ID theft are only three examples impacted by our technological culture. These and many other technological influences have created a great challenge to institutions and made the landscape of risk much more intricate. Auditors of all skill sets will have to become involved to ensure proper controls are in place.

The Integrated Auditor

The question of what the auditor of tomorrow will look like is answered often by the term "integrated auditor." Integrated implies that the skill sets of each specialty auditor will be rolled up into a single person. That will be a powerful person. Often the term "integrated auditor" is used without full knowledge of the intricacies within each individual specialist's skill set. For most auditors, the skill sets fall into a "hard skills category," which means that a solution is either right or wrong. An example of a hard skill is the ability to add numbers. If a column of numbers is summed it produces only one result; either it was added correctly or it was not. Soft skills are those that leave a lot of gray area in the solution. Auditors, in my experience, have always determined that what they have audited is either adequate or inadequate.

IS auditors have assisted financial and operational auditors for quite some time with the technical tools such as data extraction and analysis software (e.g., ACL®, etc.), databases, network issues and user controls. Many tools have become much more user friendly and have allowed those support components of an IS auditor's role to decrease. The reasons for the decline vary, but it is the decline in the support role that has decreased the visible need for the IS skill set in the financial and operational audits. That decline has contributed to the perception of an "Integrated Auditor."

It is true that IS auditors are less frequently needed for assistance with understanding database concepts or pulling information out of databases. Auditors with operational and financial skills sets are using tools such as ACL® more, which increases their comfort level with such tools. At the same time, complex data extraction tools are becoming simpler to use. With each new release the information garnered about user needs shapes new features. These enhanced features and increased auditor comfort levels have become a factor in the decline and visibility of IS auditors in a support role.

Automated working papers such as Teammate®4 from PriceWaterhouse-Coopers have also contributed to the changing role of IS auditors. Modern automated working papers require, by their very nature, a basic set of computer skills. Possessing the skills needed to use the papers has contributed to the increased comfort level in the areas of basic computer skills and database constructs. The automated work paper tools have also reduced the time needed to document and retrieve work as well as generate reports. These enhanced working features and increased auditor comfort levels have contributed to enhancing the IS skills of operational and financial auditors.

Large complex data systems that integrate many business functions, such as accounting, human resources and asset management, have forced a skills shift for financial and operational auditors. To audit these software based management systems, some degree of system knowledge is necessary. As a byproduct of that system knowledge, an understanding of basic network principles is acquired. Those consolidated systems have created a catalyst for financial and operational auditors to enhance their skills in the area of in-

formation systems. The prevalence of these systems within educational institutions is growing. Those giving an independent or objective view must increase their IS skill set to keep pace.

Consider the impact of automated tools such as ACL®, Teammate®, Oracle® and others. Combine that with the enhanced skills that are a byproduct of modern life and business. Subtract from that sum the decreased auditor support role. The result is the perception of an integrated auditor. Here it is important to consider that professions are like rivers, not ponds; they are ever flowing. Earlier, we discussed the influence that technology has had on our society as a whole and the 55-year time span of the transistor's influence. If you consider that Gutenberg's printing press took over 400 years to become fully integrated into the world, then it is possible that we are less than one eighth the way into the impact of the transistor. Software manufacturers require more processing power with each new release. Chip manufacturers design chips to deliver more processing power than manufacturer's software will need. This creates a leapfrog effect in technology rollouts. Earlier in the article, the difference in processor power of just 15 years was discussed. The 8086 processor had roughly 3000 transistors on it; the Pentium IV has over 55 million. What is the future? Hewlett Packard has patented a way to manufacture molecular sized processor chips.[5] The potential is that within the next decade billions of logic controls could be built into a single processor chip. Imagine the potential of a device that had 100 times the computing power of the Pentium IV and was no bigger than a wristwatch. Now think what all that processing power could do for your educational institution. Then think of the information systems complexity that could be created with that type of power. Imagine the enhancements to the IS skill set needed to audit a system with that much power. "None" is an inaccurate answer.

The geometric acceleration of technology and the increase in the dynamic complexity of information systems that will be rolled out over the next decade is staggering. The adage, "the more intricate the plumbing the easier it is to stop up the drain" applies. Information systems auditors currently possess a series of skills that operational and financial auditors do not attain as part of their training, assuming a four-year degree in finance or business as a baseline. As the financial and operational auditors, through the use of technology, adapt the skills and the technical focus of our culture, IS auditors' roles will transform to focus on deeper, more intricate technical matters. The increase in liability based on the implementation of government regulations will likely create an enhanced need for independent information systems audits and security assessments. The powerful systems in use and under development that are based on common Internet protocols have increased the need to verify that sensitive information is safeguarded against loss. In the modern information-driven world the information itself, although not monetary in nature, is extremely valuable and creates increased risk to an organization.

The Future

Five years from now auditors entering the profession will come equipped with a base level of knowledge concerning information systems. They will understand the Internet and how it works. They will have an understanding of the concepts of databases and systems automation. The skills that IS auditors have now will be partially built into all new auditors. The increased liability accompanying the dependence on complex systems will require those with an IS audit specialty to have an advanced knowledge of the network aspect of information systems, programming languages, and network security.

Ten years from now, there will be a wider separation in skills between IS au-

ditors and operation or financial auditors than there is today. One current philosophy states that the operational or financial auditor could do 80 percent of an IS auditor's job. While that statement is arguable today, based on position, institution and individual, in ten year's time it is likely to be fact. However, IS auditors in ten years will have an 80 percent different skill set than those today. That skill set will focus on security, dynamic identification of IS risks and new technologies that will enhance the audit field.

Information systems have changed the way businesses operate and the way information is viewed. Information is a key asset and data a resource that must be protected. The future will bring exponential complexity to information systems. To be prepared for tomorrow, the skill sets of auditors must start to be enhanced today. The children of our technologically shaped culture are blessed with IS skills that most of us had to learn as adults. As a result, the level of skill they will bring to our field will refocus the skill base needed to be an IS auditor. Security of information, increasing privacy concerns and theft of data will cause the skill sets of IS auditors to be focused on security and the identification of embedded IS risks. The days when the IS auditors had monopoly on evaluating information system user controls are fast coming to a close. Focus is turning to network architectures, encryption controls and penetration tests. Are you ready?

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Satisfactory Academic Progress

By Suzanne LaRocca, Jacksonville State University

A recent audit of Student Financial Aid revealed how little I knew about the compliance criteria of satisfactory academic progress. I cannot begin to tell you how many Student Financial Aid and A-133 audits I performed not knowing all the components of satisfactory academic progress. An anonymous tip concerning a student/employee enrolled in classes during working hours led me to a better understanding of the criteria.

The Higher Education Act of 1965, as amended, requires institutions of higher education to establish and apply standards of academic progress that all students must meet to qualify and remain eligible for assistance from the Title IV student financial aid programs. To participate in Title IV Federal Student Assistance programs, institutions must establish, publish and apply reasonable standards for determining whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program. The Title IV Federal Student Assistance programs include: the Pell Grant, Supplemental Educational Opportunity Grant, Perkins Loan, Work Study Program, Stafford Loan, Direct Loan, Direct Parent Loan for Undergraduate Students and PLUS Loan.

What is *satisfactory academic progress*? It is one requirement among the myriad of Title IV student eligibility regulations, which must be monitored by institutions

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participating in Title IV programs. Students must: (1) be enrolled in a degree program; (2) meet the completion percentage requirement; and (3) meet the school's retention requirement to be eligible to receive Title IV aid. Therefore, to maintain satisfactory academic progress to be eligible to receive financial aid, students must maintain specified grade point averages and proceed through the program at a pace leading to completion within a specified time frame.

What is a *reasonable standard*? The Secretary of Education considers an institution's standards to be "reasonable" if the standards are equal to or more stringent than the institution's satisfactory academic progress for those students *not* receiving aid from a Title IV program.

Satisfactory Academic Progress includes two components: qualitative and quantitative. Both components are equally important; however, the latter is more difficult to define.

The *qualitative* component consists of grades. Generally, to be eligible to receive aid beyond two academic years, a student must achieve minimal standards.

a) Achieve a grade point average equivalent to a "C" or have an academic standing consistent with the institution's requirements for graduation, by the end of the second year.

b) If the institution finds the student is making satisfactory progress but has failed to achieve the required grade point average cited above, justification must be based on the death of a relative, injury or illness of the student or some other extenuating circumstance.

c) If a student complies with the grade point average requirement in a subsequent period, the institution may deem the student eligible and meeting satisfactory academic progress beginning the following grading period.

d) At a minimum, an institution must review academic progress for students receiving aid from a Title IV program each academic year.

The second component of satisfactory academic progress is the *quantitative* element. Here, satisfactory academic progress can be further divided by time and percentage of completion.

The maximum time allowed for undergraduate programs is 150 percent of the published length of the educational pro-

gram. This can be measured by academic years, terms, credit hours attempted, clock hours completed, or any other method that is reasonable and appropriate.

An institution's satisfactory academic policy must include a schedule or table that will illustrate the minimum percentage or amount of course work a student must successfully complete to earn a degree in the maximum time allowed. This policy should also include specific policies regarding the effect of student eligibility on courses that are incomplete, withdrawn, repeated, and noncredit (remedial courses).

The time element can be critical depending on how the institution chooses to define time. If *time* is defined in academic years and a typical baccalaureate degree is earned in four academic years, a student would be eligible for a maximum of six years. The institution must have an administratively sound structure that will track those years. Portions of years will have to be converted and expressed in equivalent years. This process is more involved than it seems at first glance. It seems logical to accumulate those years at the point of Title IV disbursement. This may or may not be the process at your institution. If time is not accumulated at the point of Title IV disbursements, the school may be disbursing aid to ineligible students.

Another component of the quantitative element is percentage of completion, and its calculation is based on how the institution defines the academic year, which in turn determines the maximum time allowed for degree completion.

If the institution defines the academic year in three semesters (Fall, Spring, and Summer) and requires enrollment of 32 credit hours a year to complete a 128 credit hour degree, the student must complete 67 percent of their enrollment each year. To ensure compliance, this data must be captured at the *right point.* If full disbursements were made to a student for all three semesters *and* the student

dropped several credit hours ending the academic year with only 16 credit hours completed, the calculation for the percentage of completion would produce significantly different results depending on what numbers were used. Since the student received aid for 32 credit hours and only completed 16 hours (16/32 = 50 percent), they would *not* be meeting the percentage of completion criterion for the satisfactory academic progress requirement. If the calculation is made based on ending results, hours attempted and hours earned, the calculation for percentage of completion would result in 100 percent (16/16 = 1.0). Close attention must be given to *when* and *how* the calculation is performed. Some institutions do not include hours dropped in their hours attempted fields. A financial aid worker may calculate percentage of completion using *attempted* hours to earned hours not knowing that hours dropped were removed from the hours attempted field.

One caution to everyone auditing student financial aid is to be aware of the calculations. Know what should and should not be included in any calculation that is made to ensure compliance with the provisions of the Department of Education. Make sure your Satisfactory Academic Progress Policy is being calculated using the appropriate numbers at the right times. Think logically—the intent of Title IV grants is to provide financial assistance to needy students.

If the institution's policy for monitoring satisfactory academic progress considers the following provisions, then the auditor will have once again assisted management in the performance of his/her job.

The qualitative component should consist of:

➢ grades (provided that the standards meet or exceed the requirements set forth in 34CFR668.34),

➢ work projects completed or comparable factors which are measurable against a norm, and

➢ a maximum timeframe in which a student must complete his/her educational program. The timeframe must, for an undergraduate program, be:

- limited to 150 percent of the published length of the program,

- divided into increments not to exceed one academic year,

- include a schedule designating the minimum amount of work that a student must successfully complete at the end of each increment to successfully complete the educational program within the maximum timeframe, and

- include specific policies defining the effect on a student's academic progress on incompletes, withdrawals, repeated, and remedial courses.

Regardless of what choice your institution takes regarding satisfactory academic progress, consistent application of the standards must be applied to all categories of students. Controls must be in place to provide assurance that students are meeting the qualitative and quantitative standards.

Advancing Your Education?

If you are working toward your undergraduate or graduate degree and could use a little financial assistance (and who couldn't?), go to www.acua.org and check the members only section for information on ACUA's scholarship program. The deadline approaches so act now!

Education Initiative Has Been Driving Force

By Seth Kornetsky, Chair, Professional Education Committee

In the December 2001 issue of *CandU Auditor*, our President, Mike Peppers, shared his excitement and thoughts about ACUA's new Strategic Plan. Its first primary initiative is Education, which as Mike reminded us, has been a driving force behind our organization's growth and success. For many, the Annual Conference and Midyear Seminar are the only organized opportunities to network and increase our knowledge and abilities as higher education auditors. However, the Professional Education Committee (PEC) recognizes that some members cannot attend these events. Therefore, other options, such as Regional Programming and Distance Learning tailored to the needs of ACUA members, must be available. The following update shows our progress in all four strategic areas highlighting how we will provide further opportunities and options.

Annual Conference

While past Annual Conferences have been very successful, many members desire a more open, less structured format for some topics. We also recognize that compliance is becoming a more visible component of our work, as some of us assume the role of compliance officer or work more closely with those responsible for institutional compliance. Accordingly, we established the following strategies to enhance the Annual Conference experience:

- Provide workshops that will appeal to auditors, risk managers, university controllers (particularly for those institutions without audit departments) and compliance officers.

- Enhance opportunities for roundtable discussions.

In fact, we are adding a new Compliance Track to specifically address issues related to taxation, environmental health and safety, human subject research and other areas. We have also designated a workshop track for roundtable discussions, including several double sessions to allow sufficient time for fruitful discourse and information exchange.

I am also pleased to report that several new volunteers (who stepped forward at the 2001 Annual Conference) have been, or soon will be, assigned as track coordinators, proctors and workshop speakers. These individuals, along with David Coury (director, Annual Conference), are hard at work ensuring the Annual Conference will continue to exceed expectations.

Finally, to comply with our objective to provide a high quality Annual Conference at reasonable cost, we anticipate no fee increases this year.

Midyear Seminar Program

The PEC made a strategic decision (endorsed by the ACUA Board) to position the Midyear Seminar Program as a resource for staff auditors to acquire fundamental auditing skills and knowledge in specific areas (new construction, administrative software applications, computer assisted auditing techniques (CAATs), etc.). At the same time, we recognized the Midyear could also afford an opportunity for audit directors and managers to convene between Annual Conferences to gain insights on significant issues and strengthen their skills. Accordingly, we formulated the following Midyear Seminar strategies:

- Implement programming that provides new staff with an introduction to auditing in higher education and focuses on audit-specific areas of compliance and operations within higher education.

- Explore providing one of the Midyear sessions as a retreat for audit directors and managers. Offer roundtable opportunities by school type and, if appropriate, a guest lecturer to address a hot topic in higher education (research compliance, HIPPA, distance learning, e-commerce, etc.) or an aspect of managing

audit departments (leadership training, strategic risk assessment, developing an audit plan, etc.).

- Identify new speakers from the membership for Midyear Seminar presentations.

PEC assistant chair Nur Erenguc has been working with Mark Good, director, Midyear Seminar, to develop sessions that will emphasize a common body of knowledge for auditing within higher education. A foundation already exists with *The Fundamentals of Auditing University Departments and Service Organizations* taught by Rob Clark. Other sessions this year tilting toward core skills include *Audit Reports Today*, designed to improve report writing, and *Putting it All Together: Integrating ACL into Your Audit Envi-*

ronment, A Case-Based Approach, which will be higher education specific.

Nur and Mark are also making good on their promise to provide a program for audit directors at the Midyear. *Managing the Audit Function for Colleges and Universities* includes a formal presentation and a series of round table discussions on risk assessment, audit planning, organizational structure and interaction with internal and external stakeholders, audit's role in university compliance programs and benchmarking tools. Several ACUA members have already agreed to serve as facilitators. In summary, we are making a successful Midyear Seminar program even better.

Regional Programming

The success of this strategic initiative will be highly dependent on the level of inter-

est. Regional programming strategies include:

- Seek out partnering opportunities with regional higher education audit groups to coordinate learning opportunities and provide administrative support in areas of:
  - Web site conference promotion
  - Registration
  - Hotel/meeting space arrangements
  - On-site management during conferences
  - Speaker arrangements and CPE documentation
- Present emerging issues as hot topic seminars that would provide members the opportunity to obtain pertinent information from experts in a timely fashion.

We are making progress in each area. I recently asked Penny Howard (Longwood College) to compile an inventory of higher education audit groups outside of ACUA. We will then determine the level of interest in coordinating learning opportunities, developing a speakers bureau and providing conference and seminar support. We are also negotiating a partnership with ACL Services Ltd. that may result in one or two regional workshops each year in addition to the one presented at the Midyear. Additional hot topic seminars on compliance and auditing software applications are being considered but will require an additional volunteer base and additional costs (and capacity) for our association management firm. Logistical issues aside, anyone interested in helping to suggest, coordinate, develop or teach a hot topic seminar in a particular region of the United States should contact me directly.

Distance Learning

Distance learning can and should be incorporated into the services and value that an ACUA membership provides. Our strategies in this area include:

Education Initiative

- Evaluate Web-based training from the ACUA site.
- Evaluate digitally taping Annual Conference and Midyear sessions to resell as streaming video presentations from the ACUA Web site to those who cannot attend, particularly international members.

I ask any member who has developed or knows of PowerPoint or on-line tutorials addressing a relevant audit process or compliance area to contact me about how we might make the presentation available on the ACUA Web site. Also, we will contact other organizations, such as the IIA, to explore the possibility of linking our Web site's members-only section to the organizations' distance learning resources at group rates.

During the next several months, I will be discussing with the PEC and our management association the possibility of digitally recording Annual Conference and Midyear sessions, which we would then make available for a fee. The success of this initiative, however, will depend upon the willingness of speakers to allow their sessions to be taped and our ability to overcome any technological hurdles.

I am pleased with the PEC's progress only a few months after the Strategic Plan was presented to our membership. I invite any member interested in helping us realize our goal of providing top quality ACUA education—whether it be near the shores of Myrtle Beach, within view of the Oquirrh and Wasatch mountains at Salt Lake City, or at your office desk—to give me a call. I promise to get you involved in our success!

Letters to the Editor

The Changing of the Guard

Dear Editor:

I'd like to welcome you as the new managing editor of *CandU Auditor*. As a new member of the Publications Committee myself, I look forward with anticipation to the task of continuing to produce an informative and interesting magazine for our readers. I recall the first Publications Committee discussion in which I was involved, led by last year's *CandU Auditor* editor, Vicki Escalera. The topic was about how we as *CandU Auditor* editors can make the magazine better. Time and again we brought up the fact that, as an international organization, ACUA has an incredible wealth of knowledge and experience upon which to draw. One example discussed was the ACUA-L. The range of topics covered is almost limitless, and I've never seen a question go without a useful response. What an exciting opportunity it is to log in to my email every morning and review ACUA discussions. Most topics have multiple responses from ACUA members on the East coast long before those of us out West have even crawled out of bed. If in reading a three-paragraph email I'm able to glean useful information on a given topic, I can only imagine what could be gained from expanded articles on ACUA-L discussion topics.

Jeff Jarvis, principal auditor, University of California, Irvine

Member NEWS

Comings and Goings

Cindy Bookout, CPA, left Florida State Universitys (FSU) Office of Inspector General, where she worked for more than seven years and was the director of Audits. Cindy was promoted to assistant director for the Telecommunications Department. She recently completed the CBMI (college business management institute sponsored by NACUBO).

Rebecca Bardin, CPA, left the FSU Office of Inspector General to work as the coordinator of Business and Finance at The Ringling Museum, which is operated by FSU. She had been the first Auxiliary Auditor for the FSU OIG.

Richard Bennett, CPA, left Life University where he served as internal auditor for four years. Richard accepted a position with BKR Metcalf Davis in Atlanta, which specializes in governmental auditing and college and university auditing. His past experience includes being an internal auditor for 10 years with the Department of Health and Human Services, Office of Inspector General, Office of Audit Services.

Steve Brennan, CPA, CIA, left Monmouth University where he served as internal auditor for three years. Steve accepted a position as chief accountant for a local public school system.

Ken Chambers, CIA, CGAP, joined Florida State University as director of Auditing. Ken came to FSU from the Florida Board of Regents/Florida Board of Education, Division of Colleges and Universities, where he served as interim chief inspector general. Ken's past experience includes being director of Auditing for the Department of Environmental Protection and the Department of Business and Professional Regulation.

Bahram Hatefi, CPA, CIA, CFE, Ph.D. joined Bowling Green State University as director of Internal Auditing and Advisory Services. Dr. Hatefi came to BGSU from Western Washington University where he served as an internal auditor since 1998. His prior experience includes University of TexasPan American.

Don Holdegraver, CPA, CFE, CIG left the University of South Florida where he was Inspector General for the last two and one-half years to become the director of Operations Analysis at the University of Nebraska-Lincoln.

Scott McElroy left Kennesaw State University after two years of service in Internal Audit to become the budget director for Clayton College and State University. Scott's past experience includes the Board of Regents and University System of Georgia.

Sharon Pearson, CPA, joined the FSU Office of Inspector General as the Auxiliary Auditor. Sharon has 10 years of university experience, eight at FSU. Sharon previously worked in the FSU Controller's Office.

Congratulations to...

Arunima Bagui, auditor at the University of South Florida, and her husband Tapen as they welcome their first child, Arpen. Arpen joined us on January 11, 2002 at a healthy 8 lbs 8 oz and was 19 inches long. He and his mom and dad are doing well.

Our compliments to these new CIAs: **Joanne Ouellet** and **Olivia Jones,** University of Texas Medical Branch, **Donald (Chip) McConnell** and **Rhonda Mings,** University of Kansas and **Jennifer Kunza,** Washington University in St. Louis. Also congratulations to **Kim Reyna,** University of Texas Medical Branch, on passing the CISA exam and **Suzanne LaRocca,** Jacksonville State University on completing her MBA.

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Best Practice Aid
How Does Your Internal Audit Function "Measure Up?"

By Steve Jung, Chair, Best Practice Committee

In an article published January 3, 2002, on the PricewaterhouseCoopers CFO Web site (http://www.cfodirect.com), Gary Price of PwC provides an interesting perspective on internal audit functions that "provide real value." Based on the concept of "alignment," meaning the extent to which internal audit team resources and skills are aligned with the expectations of major stakeholders (e.g., board, senior management) and organizational mission, Price's criteria provide a useful basis for self-assessment. How does **your** internal audit team "measure up" on the following eight key attributes of a world-class internal audit function?

1. **Clearly Defined Expectations:** The expectations of key stakeholders such as management, audit committees and boards of directors are well defined and prioritized.

2. **Strategic Alignment:** The internal audit team's resources, skills and investments are fully aligned with the vision and goals of major stakeholders.

3. **Strong Communication:** Internal audit is adept at conveying the results of its findings, building support, and promoting cross-functional interchange.

4. **Risk Focus:** Resources are applied to areas that promise maximum return on investment.

5. **Effective Audit Technology:** Advanced systems and processes are deployed and continually upgraded.

6. **Knowledge Management:** There is a strong commitment to sharing best practices internally, across functional boundaries and with external alliance partners.

7. **Skill Development:** Innovative departments consistently produce professionals who possess a broad range of skills and are well trained for advancement.

8. **Performance Measurement:** A clearly defined system exists for measuring and reporting goals achieved and value delivered.

If you (and your boss) can point to tangible accomplishments on each of these attributes, take a moment to celebrate. If not, take a moment to think about what you might do to improve your performance assessment; it could be the most valuable thing you do today.

Call for Your Stories and Anecdotes

Have you experienced one of those work situations where it was all you could do to keep from busting out in laughter? We are interested in compiling stories and anecdotes related to Humor in Auditing (e.g., the internal auditor who goes to count a $20 petty cash fund and is given a $20 bill to count; the petty cash that is kept in a vault, where no one knew the combination to the safe except a previous employee, etc.) Another professional organization, the Association of Certified Fraud Examiners, has established on its Web page fraud folly (see: http://www.cfenet.com/media/follies.asp) where these funny things are kept. Our idea is to ask the membership to share any funny stories, which will appear in a future CandU Auditor *issue. Yes, the identity of the school and the auditor(s) will remain anonymous!*

Association of College &
University Auditors
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ACUA
Association of College & University Auditors

2002 Midyear Seminar
April 21-24, 2002

The Wyndham Resort Myrtle Beach
Myrtle Beach, South Carolina

A Pro-Active Approach to Construction Auditing
Kevin J. Sykes, President and Owner & Tim Peterson, Vice President,
   Client Services, Construction Consulting International

"Putting It All Together": Integrating ACL Into Your Audit Environment, A Case-Based Approach
Doug Burton, ACL, and Kate Head, Audit Manager, University of South Florida

Audit Reports Today
Sally Cutler, President, Word-Wrights Incorporated

Managing the Audit Function for Colleges and Universities
With Roundtable Discussions on Risk Assessment and Audit Planning, IA Organizational Structure and Strategies for Interacting with Internal/External Stakeholders, IA's role in University Compliance Programs, and Tools for Benchmarking and Quality Assurance
Bill Costello, Owner, Costello Seminars, and a Panel of Facilitators

The Fundamentals of Auditing University Departments and Service Organizations
Rob Clark, Jr., Director of Internal Auditing, Georgia Institute of Technology

Audit, Security, and Control of PeopleSoft Financials
Brad Hamilton, Senior Consultant, Entellus Technology Group

The Sunday night reception, Monday night dinner/dance, and Tuesday shuttle service to Broadway at the Beach is included in the seminar fee. Please go to www.acua.org and click on the Midyear Seminar link for more information.