North Dakota University System

NDUS System-Wide Fraud Risk Assessment Report

July 14, 2016

REPORT ON THE RESULTS OF THE SYSTEM-WIDE FRAUD RISK ASSESSMENT SURVEY DISTRIBUTED APRIL 21, 2016

NORTH DAKOTA UNIVERSITY SYSTEM AUDIT SERVICES
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Conveyance Letter

July 14, 2016

North Dakota State Board of Higher Education – Audit Committee
Dr. Mark Hagerott, Chancellor – North Dakota University System

NDUS Audit Services has compiled the results of the Fraud Risk Assessment Survey that was distributed to NDUS employees on April 21, 2016. The survey represents an initial step as NDUS moves to a risk based audit approach. This is the first of what will now be an annual system-wide Fraud Risk Assessment. The evaluation technique and method (survey or other), will be reviewed and updated each year.

I would like to thank the workgroup participants, and most importantly, the faculty and staff that took the time to provide their detailed and thoughtful responses. I understand these dedicated professionals are very busy people and appreciate their efforts.

I compiled the survey results and inquiries or comments relating to this report may be directed to me at (701) 328-4159.

Respectfully submitted,

Laura Anne Schratt
NDUS Director of Audit Services
Executive Summary

In the most recent audit by the State Auditor’s Office, (North Dakota University System – Governance Communication – Including the Report on Internal Controls, Compliance & Other Matters – Year ended 6/30/15), Prior Not Implemented Recommendation 1 notes:

“During the 2008 and subsequent audits, we recommended that SBHE require a comprehensive fraud and control risk assessment by each institution and that they establish appropriate internal controls to detect, deter and avoid potential fraudulent activity and risk relevant to the preparation of financial statements.”

In an effort to better assess the university system’s and the individual institution’s fraud risk, a Fraud Risk Assessment survey was developed by a workgroup consisting of representatives from the two-year campuses, the four-year campuses, Human Resources, Internal Audit and Compliance. The survey questions, format (quantitative versus qualitative), and response options were vetted with the group to obtain the greatest level of useful information while preserving anonymity.

General

The survey was distributed on April 21, 2016 to all 7,678 permanent, benefitted employees of NDUS. Responses were received from 2,675 employees, a response rate of 34.8%. Of the responses received, 27% indicated they were faculty and 71% indicated they were staff, with 2% preferring not to answer. Respondents were asked to indicate years of service with 32% responding 0-5 years, 18% responding 6-10 years and 49% responding greater than 10 years, with 1% preferring not to answer.

Key Findings

Analysis of the fixed response questions shows that:

- Awareness of fraud risk and ethics is high, with an overwhelming majority of respondents answering “strongly agree” or “agree” with the positive statements in these areas.
- Understanding and/or knowledge of segregation of duties had a less positive response rate, and is considered an area of opportunity.
- Effectiveness of process review and approval for financial activities is high with a large majority of respondents answering that they “strongly agree” or “agree” with the positive statements in this area, however the positive response rates drop when the respondents were asked about non-financial areas, this is another opportunity for improvement.

When asked the open response question “If someone in your institution decided to steal or commit fraud, how could they do it and get away with it?”, 67.5% of respondents indicated that they did not know, or did not think it could be done. The vast majority of remaining responses included generalized ideas of what could possibly be done, the taking of office supplies and time theft being the most common.

When asked “If you could tell your institution President one thing what would it be?”, 27.4% of respondents provided a comment. When asked “If you could tell the Chancellor one thing, what would it be?”, 23.2% of respondents provided a comment. In a separate report, each President will receive all comments specific to their institution and the Chancellor will receive all comments directed to him.

Conclusion

Opportunity areas noted in the report may be incorporated into the system-wide audit plan being developed by NDUS Audit Services, or may be referred to campuses for follow up. Specific action may include internal audits of a risk area, additional system-wide or campus specific training, process improvement or other methods. Results of specific action items will be included in the 2017 Fraud Risk Assessment report.
Survey Results
Responses were received from each campus, as well as the North Dakota University System Office (NDUSO) and Core Technology Services (CTS). The response rates are included in Chart 1:

Chart 1 – System-wide Response Rates

Analysis of Responses
The Fraud Risk Assessment Survey was divided into four specific areas, Fraud Awareness, Ethics, Segregation of Duties and Process Review. The results of the survey for each area are detailed in Charts 2, 3, 4 and 5 respectively, as well as analysis of the strength and opportunity areas.

Chart 2 – Fraud Awareness

Fraud Awareness Strength Area: Awareness of Fraud Policies, Fraud Training and Anonymous Fraud Reporting are high, 98%, 97% and 91% respectively.

Fraud Awareness Opportunity Area: When asked if the respondent felt that Fraud Reporting can be truly anonymous, the positive response rate drops to 78%. This indicates an area of potential improvement as employees are best equipped to know of potential fraud, therefore ensuring and communicating anonymity is essential.
**Chart 3 – Ethics**

**Ethics Strength Area:** For 6 of the 7 questions asked regarding ethics, over 90% strongly agreed or agreed with the positive ethics statement.

**Ethics Opportunity Area:** When asked if the respondent felt comfortable disclosing potential wrongdoing, the positive response rate drops to 75%. This indicates an area of potential improvement as employees are best equipped to know of potential fraud, and fostering an environment where they can safely report potential fraud is crucial.

**Chart 4 – Segregation of Duties**

**Segregation of Duties Opportunity Area:** When asked if the respondent felt there were issues with segregation of duties, 22% agreed and 52% noted that they did not know. This indicates an area of potential improvement to current segregation of duties, in addition to employee training, as some employees may not understand segregation of duties concepts, or are unaware how or if they are in practice in their area of responsibility.
**Process Review Strength Area:** Respondents noted confidence that effective process review and approval exists for financial transactions (80%) and travel expenses (81%).

**Opportunity Area:** Respondents had less confidence in the effectiveness of process review and approval for non-financial activities, most notably grant fund compliance, where the positive response rate drops to 59%. This indicates areas for potential improvement in non-financial institutional activities.

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**From the Employees**

The statements below are a sampling of comments made by survey respondents.

“We are a small campus and in many respects cross-trained. We are too busy to think about stealing or fraud. At least that is the case in the area I work in.”

“I think people with low morale are more likely to commit an act against the institution. Therefore, I would like to see departments with bad leadership be given opportunities to improve their environments.”

“I love working in an environment that makes me feel like I matter and my opinion is always heard.”

“We are all adults, but people should be more diligent about being at their assigned work areas at the time they are expected to arrive and until the time they are scheduled to leave.”

“I don’t think there is pervasive fraud at our institutions. I think for the most part people are honest and ethical.”

“I like where I work and who I work with and am proud of our ND universities and the people who make them all go, from the grounds crews to the President.”

“My institution is a good place to work. But...it is not a great place to work, and it could be. It is a model of the typical "academic hierarchy" system at a university. Unfortunately, that attitude does not work in a 24/7 world. We continue to be slow to respond to internal issues. Because of that, we will always have a high level of potential for fraud.”

“All institutions are equally important regardless of their location in the state.”