



NEW YORK REPORTS

GOLD AWARD CHAPTER

NOVEMBER 2005



Dear Colleagues:

Welcome to the November issue of our newsletter. Thanksgiving is fast approaching and the year-end holidays are just a few short weeks away. With all of the holiday excitement in the air during this time of year, some people find it a little

more challenging to stay focused on their goals. Well, I'm glad to report that there has been no loss of energy or focus at the NY Chapter. We are truly lucky to have such a great support group, including our volunteers who make our programs a reality, our officers who oversee several committees and administer Chapter business, our board members who offer valuable guidance and keep us moving in the right direction, and all of the NY Chapter members who attend our social and educational programs. I truly wish you all a great holiday season!

We had a very special workshop and luncheon program on November 18th. Our instructor, Chuck Mignosa, presented a workshop titled "Using Business Process Analysis in Your Audits". The one-day workshop was an introductory-level program designed to give participants the skills, knowledge and confidence to work in a business analysis role in an systems audit environment. Workshop attendees earned seven CPE credits.

We had a special guest join us for our November 18th luncheon presentation, Thomas J. Warga, Senior Vice President and General Auditor, New York Life Insurance Company, and IIA Chairman of the Board. Mr. Warga's presentation, "Keeping Our Promise", addressed the expanding role of internal audit and the importance of getting back to basics such as independence, objective assurance, and fraud prevention.

Although the agenda was already quite full for our November 18th meeting, it would be a disservice if we didn't recognize the Chapter's newest Certified Internal Auditors (CIA). I was very pleased to hear that several of our members who have just earned

their CIA designation were able to join us at the luncheon to receive their certificates. I still remember receiving my certificate at a Chapter luncheon in 1999. On behalf of the NY Chapter, congratulations to all of our newest Certified Internal Auditors and continued success in the future!

Our final workshop and luncheon program in 2005 will be held on December 16th. The topics are:

- Workshop: Sharpening Your Report Writing Skills, presented by Joanne Feerman (7 CPE credits)
- Luncheon: Get It Before It Gets You...Fraud Prevention Made Easy, presented by John McKeever.

Please visit our website (www.nyiaa.org) for more information about these programs as well as our upcoming 2006 programs.

I look forward to seeing you at our next workshop or luncheon.

Luca A. Pagoto, President
IIA New York Chapter

In This Issue

	<i>Page</i>
President's Message	1
Editor's Corner/IIANY Officers	2
Building Rapport	3
Improving Internal Controls	4-5
Future NYIA Chapter Seminars	6
Future NYIA Luncheons	7

2005 – 2006 CHAPTER OFFICERS

PRESIDENT

LUCA PAGOTO

New York Life Insurance Company
(212) 576-6350

E-Mail: Luca_Pagoto@newyorklife.com

Executive Vice President

RICHARD M. DAPCIC

NYSE

(212) 656-2131

E-Mail: rdapcic@nyse.com

Vice President-Professional Development

BRIGITTE COLLINS-POWELL

AXA Financial

(212) 314-5348

E-Mail: brigitte.powell@axa-financial.com

Vice President-Professional Services

GAIL FORKOSH

MetLife

(212) 578-3192

E-Mail: gforkosh@metlife.com

Vice President-Secretary

CAROL McFARLANE

MetLife

(212) 578-5351

E-Mail: cmcfarlane2@metlife.com

Vice President & Treasurer

REGINA MULLEN

New York Life Insurance

(212) 576-7058

E-Mail: Regina_Mullen@newyorklife.com

Immediate Past President (2004-2005 Chapter Year)

MARIAN DOUGHERTY

MetLife

(212) 578-8229

E-Mail: mdougherty@metlife.com

Newsletter Chair

MICHELLE DUKE

Guardian Life

(212) 598-7482

E-Mail: michelle_duke@glic.com

Advance Technology

JOEL IPE

Citigroup

(212) 657-0354

E-Mail: Joel.Ipe@citigroup.com



Editor's Corner

A subway ad reminded me of a college friend, Huong, and of the recipe for turkey vol au vent she gave me. Huong and I went from strangers to friends within minutes of our first meeting. Lucky for me, she was good at building rapport. She questioned me on my interests and gave tidbits about herself so that within minutes we were exchanging recipes. Huong taught me that asking questions, listening, and setting the pace of the conversation can build rapport and bridge gaps.

When reflecting on my schooling, both in and out of the classroom, I realize that learning is continuous and that we can all "progress through sharing". I hope my involvement in the NYIIA can help others make the same connection. I vow this Thanksgiving holiday, amid the turkey and the stuffing, to take a moment to remember those who were instrumental in my education.

"It is not enough to have a good mind; the main thing is to use it well." - Rene Descartes

Michelle Duke, CPA
Newsletter Chair



Building Rapport

Internal auditors rely heavily on face-to-face communication. We host entrances conferences to introduce ourselves and exit conferences to communicate our recommendations. We interview auditees to obtain information – whether to establish the background of our audit area, verify our observations, or to summarize policies and procedures. One of the challenges of our job is building rapport quickly so as to control our communication. Good rapport can minimize conflicts and mis-understandings, focus attention, and persuade an auditee to trust our recommendations.

To establish rapport use specific actions and words to build trust and encourage the auditee to provide information. Begin by asking general open-ended questions. You may already know the answers to the questions but the questions are non-threatening to the auditee thereby easing tensions. The aim is then to move from general questions to specific questions. During the interview or meeting, enhance your rapport-building skills by practicing the following techniques:

- Match language – successful auditors align their choice of words and phrases to match those of the auditee. However, auditors must understand the meaning of the words or jargons used by the auditee. Ask the auditee to explain any jargon used.
- Match body language – auditors can subtly mirror the auditee’s gestures, postures, and movements. Auditors must carefully mirror, not mock the auditee, remembering that we are trying to make the auditee comfortable not angry.
- Match speech pattern – By listening carefully and matching the auditee’s speech pattern, auditors show the auditee that we’re in sync with them. Auditors should match the rate, volume and pitch of the auditee’s speech, including the tone and the tempo used without interrupting.

Effective communication involves the auditor establishing rapport early in the communication. Studies show that 7 percent of communication is verbal (words), 38 percent is vocal (volume, pitch, rhythm, etc), and 55 percent is body language or movement therefore effective nonverbal skills are essential. When internal auditors conform their nonverbal behavior to the auditee and match the auditee’s language and speech pattern it subtly tell the auditee that the auditor is “one of us”. Research shows that “people like people who are like themselves”. The aim is to establish rapport using specific actions and words to build trust and encourage the auditee to provide information. When auditors can establish rapport, easing barriers, trust grows and the communication flows.

Improving Internal Controls



Auditors are often faced with the task of improving the efficiency and effectiveness of internal controls already in place. For example, an investigation found that an employee used the company's overnight delivery service fraudulently for several years without detection. An anonymous tip led management to investigate the allegation that the employee operated a personal business from his office sending and receiving packages using the mail delivery service. The Internal Audit department was asked to review the process and recommend improvements to the internal controls.

Employees use the delivery service to send documents same day or overnight. Under the program, employees obtain a preprinted mailing label from the mailroom or fill out a blank label obtained from the delivery service drop-box or from its website. The preprinted mailing label includes the company's address and the delivery service account number. Several times a month, the delivery service bills the company based on the weight of the item mailed or received and the type of handling instructions requested. Invoices are sent directly to the Accounts Payable Office. The mailroom supervisor completes a receiving report and sends it to Accounts Payable where the invoice is paid. The mailroom supervisor reviews the delivery service's invoices monthly using a report that the delivery service provides. The mailroom supervisor identifies transactions that exceed \$50 or that exceeded the weight class for the package. Management wonders why the monthly review did not identify the employee's fraudulent practices.

After observing the overnight shipping process, auditors evaluated the internal controls determining if the internal controls in place were:

Aligned with its population: Transactions under review must represent the population. Under the current review program, transactions under \$50 were not highlighted even though 97 percent of the transactions were for less than \$50. The review's threshold was set too high allowing many transactions to go unquestioned. The employee who perpetuated the fraud operated unnoticed because all of his domestic charges were far less than the \$50 per transaction threshold. In addition, the review should have targeted frequent and/or extraordinary usage.

Control access: The company did not control the account number used to bill for mail delivery services. The account number provided the sender with the equivalent of a credit card -- anyone with knowledge of this account number could use it to send packages. Account numbers or invoices should be used to identify and segregate users by division or organization code.

Change periodically: The account number, which has not been changed for several years, is preprinted on mailing-labels supplied by the company's mailroom personnel. Mailroom personnel told auditors that the preprinted labels are given out upon request with no justification or approval required. Or employees can simply go on line and download mailing-labels and write in the company's account number. Either way the account number should have been changed periodically.

Establish Accountability: Immediate supervisors should have reviewed the invoices before they were paid for only the immediate supervisor can tell if an employee

transaction is legitimate. It is unlikely that the supervisor of the employee who perpetuated the fraud was aware of the extent to which delivery service was used since the delivery service bill is paid from a central account. Accountability serves as an incentive to use assets efficiently and effectively.

Auditors know that good internal controls are the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal controls should be designed to prevent or promptly detect unauthorized acquisition, use or disposal of a company's assets.

Anti-Money Laundering Rules for Insurance Companies

Bill Bishop Memorial Fund

The New York Chapter of the Institute of Internal Auditors is proud to donate \$10,000 to the IIA Research Foundation – The William G. Bishop Memorial Fund. The donation will help support research to identify and codify global best practices in the internal auditing profession.

Red Cross Donation

The New York Chapter of the Institute of Internal Auditors is proud to donate \$5,000 to the Red Cross for the Hurricane Katrina Relief effort.



IIA/NY Chapter 2005-2006
Seminars
at
Madison Square Garden

November 18, 2005

Chuck Mignosa

“Using Business Process Analysis in Your Audits”

December 16, 2005

Joanne Feierman

“Sharpening Your Report Writing Skills”

January 13, 2006

Joel Kramer

“Attributes Of World Class Audit Departments and Best Practices”

February 17, 2006

Rich Lanza

“Best Practices in Audit Technology Implementations”

March 24, 2006

Annual Audit Seminar

April 7, 2006

Nick Barone

“Enterprise Fraud Risk Assessments”

May 5, 2006

Barbara Davision

“Continuous Auditing”

For More Information Visit our Website at <http://www.nyiaa.org/>

You're Invited to our Garden Party

Institute of Internal Auditors - NY Chapter

Luncheons

**at
Madison Square Garden**

November 18, 2005

Thomas J. Warga

IIA Chairman of the Board,

New York Life Insurance Company

"Keeping Our Promise"

December 16, 2005

John McKeever

"Get It Before It Gets You....."

Fraud Prevention Made Easy

January 13, 2006

Warren Hersh

"A Strategy for Managing an Organization's

Key Controls"

February 17, 2006

Julie Connors, Partner

Deloitte & Touche LLP

"How To Assess And Audit Extended

Enterprise Risk"

March 24, 2006

Annual Audit Seminar

April 7, 2006

John Langione, Partner

Ernst & Young

"Fraud Awareness For Internal Auditors"

May 5, 2006

- Awards Presentation

For More Information Visit our Website at <http://www.nyiaa.org/>