 Fraud Harold Jones, the financial aid officer at a small university, manages all aspects of the financial aid program for needy students. Jones receives requests for aid from students, determines whether the students meet the aid criteria, authorizes aid payments, notifies the applicants that their request has been either approved or denied, writes the financial aid checks on the account he controls, and requires that the students come to his office to receive the checks in person. For years, Jones has used his position of authority to perpetrate the following fraud: Jones encourages students who clearly will not qualify to apply for financial aid. Although the students do not expect aid, they apply on the off chance that it will be awarded. Jones modifies the financial information in the students’ applications so that it falls within the established guidelines for aid. He then approves aid and writes aid checks payable to the students. The students, however, are informed that aid was denied. Since the students expect no aid, the checks in Jones’s office are never collected. Jones forges the students’ signatures and cashes the checks.

Required:

Identify the internal control procedures (classified per COSO) that could prevent or detect this fraud.

Step 1:

Internal control: One method of examining internal controls is to use the business formula system for monitoring firm activity. Internal controls enable the business to efficiently handle all activities and cut down on errors.

Step 2:

Answer and explanation

1. Division of Functions:

One person handles all of the duties involved in accepting student applications, including verifying that they fit the requirements, authorising payment, and writing student checks. It has given rise to a chance for deception. As a result, these activities ought to be divided as much as possible.

2. Work authorization

The second party must vouch for the legitimacy of the supporting documentation and determine whether the student satisfies the eligibility requirements.

3. Accurate Recordkeeping: Any submitted student materials must be accurately recorded in order to acquire future updates to the application forms.

4. Access Control: All non-distributed checks must be stored in a joint location with another person and kept locked at all times.

5. Independent Verification: Regular independent verification of all papers can assist find any discrepancies.