

# DERBY CITY DISCLOSURES



**LOUISVILLE IIA CHAPTER**

**May, 2005**

## **PRESIDENT'S MESSAGE**

Dear Members,

It's hard to believe that the chapter year is already drawing to a close. We've had a very successful year. We have experienced an increase in attendance at our monthly meetings and seminars and have added 42 new members! I would like to take this opportunity to thank all of the officers and the board of governors for their hard work. Their dedication and commitment has led this chapter to the success we experienced year after year.

I would like to invite those who are not currently involved with our chapter events to become more involved next year. The chapter provides excellent education, networking, and leadership opportunities.

I have enjoyed the opportunity to serve as President this year and look forward to continuing to volunteer with the chapter. Please welcome Dwayne Dowell as President and Connie Davis as Vice President for the 2005-2006 chapter year.

Thanks to Michele Welscher who spoke to us last month on Targeting Business Risk.

We will be meeting at Churchill Downs for our last meeting of the chapter year. Brian Johnson, Senior Director of Internal Audit at Churchill Downs Incorporated, will be speaking to us about Auditing the Gaming Industry. After his presentation we will have a buffet lunch at Skye Terrace. Feel free to stay for the races starting at 2:45. Please note that this meeting will be held on FRIDAY, May 13. Seating is limited. Please RSVP as soon as possible to guarantee your spot!

Thanks to all those who returned chapter surveys. These surveys will be used to help plan next year's meetings and seminars. Congratulations to Scott Olinger who won the free Churchill Downs meeting!

Thanks for your involvement and support this year!

Heather DiEnno  
Chapter President

## **NEXT MEETING:**

**Friday, May 13, 2005**

**at Churchill Downs**

**Auditing the Gaming Industry**

*See page 2 for details*

# MAY MONTHLY MEETING

## Auditing the Gaming Industry

Brian Johnson  
Churchill Downs

**Friday, May 13, 2005**

**Noon - Presentation**  
*in the Turf Club*

**1:00 - Buffet Style Lunch**  
*in the Skye Terrace*

**2:45 - Races start**

**1 CPE hour**  
(certificates available upon request)

**Churchill Downs**  
700 Central Avenue  
Louisville, KY 40208

### To Churchill Downs:

\* I-264 (Watterson) to Southern Parkway  
or Taylor Boulevard North exit.

\* I-65 to the Crittenden Drive exit.  
Turn Right on Central Ave.

\*\* Directions within Churchill Downs to our meeting  
location will be sent separately to the members  
attending.

Cost: \$20.00  
Use PayPal at [www.iialou.org](http://www.iialou.org) or remit at meeting

### RSVP by THURSDAY, May 5, 2005

Carrie Ramsey  
Office: 627-4738 Fax: 217-2447  
[Carrie.ramsey@lgeenergy.com](mailto:Carrie.ramsey@lgeenergy.com)

## *About Brian . . .*

Brian S. Johnson, CPA is the Senior Director of Internal Audit for Churchill Downs Incorporated ("CDI"). Brian joined CDI in 2002 charged with the task of implementing an internal audit function for the company. His current responsibilities include managing the operations of the Internal Audit department as well as coordinating CDI's initial and ongoing Sarbanes-Oxley Section 404 compliance efforts. In addition to these roles, Brian has served on several internal CDI task force efforts, including one undertaken in 2004 to design an improved Performance Management Process for the company. Prior to joining CDI, Brian spent 6.5 years at PricewaterhouseCoopers, most recently as a manger responsible for overseeing financial statement audit engagements of middle market private and public companies, including CDI. Brian is a member of the IIA, AICPA and KSCPA, has a wife, Michelle, and two children, Lainey (4) and Brayton (1).

**PayPal** is a quick and simple way to pay for monthly IIA meetings. From the chapter web site ([www.iialou.org](http://www.iialou.org)), go to the meeting and seminar schedule page. Click the "pay now" button for the meeting you wish to pay for. If you already have a "PayPal" account, simply verify the amount, enter your log-in and password. *If you don't already have a "PayPal" account,* you will need to fill in the information for new members (similar to other e-commerce web sites such as Amazon). Once you have completed the transaction, you will be sent an e-mail receipt by PayPal and be returned to the Louisville IIA web site. The local chapter also receives an e-mail that tells us you have paid. You will **still need to contact Carrie Ramsey** with your menu choice. All information is exchanged via HTTPS protocol (secure and encrypted) and remains with PayPal.

# CHAPTER NEWS

Visit [www.ialou.org](http://www.ialou.org) for more details!!

## OFFICERS

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## WELCOME NEW MEMBERS

We have seven new members to our chapter. Please welcome: Kimberly Bates of Louisville-Jefferson County Metro Government; Rhonda Mitchell of ACCENT Marketing Services, LLC; Malcolm Neel and Quintin Stone of Neel & Company, LLP; Stacy Robertson of Insight Communications, Inc; and Alpa Hemalkumar Vyas. Ralph Wilson of Harding, Shymanski & Company has transferred from the Evansville Chapter. Welcome to all!!

## 2005 CISA EXAM

ISACA will administer the 2005 CISA exam on Saturday, June 11. The 200 multiple-choice exam will be held in one four-hour session. If you are planning to take the CISA exam please contact Lisa Buckner ([lisa.buckner@lgeenergy.com](mailto:lisa.buckner@lgeenergy.com) or (502) 627-3139. Registration materials and additional information can be obtained from Lisa, as well.

## MARK NEGRINI SEMINAR - EVANSVILLE

Did you miss our Access seminar in January? Here's your chance to attend! The Tri-State Chapter in Evansville is considering having Dr. Nigrini put on a seminar for their chapter in June. If you are interested in attending, please see the brochure beginning on page 6 and respond by as soon as possible to the Evansville chapter officers. See the brochure beginning on page 6.

## MONTHLY MEETING REMINDER

Please remember to RSVP to Carrie Ramsey for any monthly meetings you will be attending. **BUT**, if you register to attend the monthly chapter meeting and later decide you need to cancel your reservation please contact Carrie Ramsey by noon on the THURSDAY prior to the meeting. The chapter is charged for the number of lunches submitted regardless of the number of individuals that actually attend.

## CHAIRPERSONS

### Academic Relations

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### Audit

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### Government Relations

OPEN

### Seminars

OPEN

# NATIONAL NEWS

Visit [www.theiia.org](http://www.theiia.org) for more details!

## Headlines from [www.theiia.com](http://www.theiia.com) . . .

### SEC roundtable elevates the profession

A recent Securities and Exchange Commission (SEC) roundtable welcomed critique of Section 404 of the U.S. Sarbanes-Oxley Act of 2002. The hearing included IIA senior volunteer and Chief Audit Executive Kimberly Gavaletz, whose invitation was a result of an IIA survey of nearly 2,000 CAEs and a subsequent unified response sent to the SEC. A [Tone at the Top](#) Special Edition provides seven next-steps for board members.

### IIA meets 100,000-member goal

The IIA is celebrating the addition of its 100,000<sup>th</sup> member, Steven M. Wescott, director of auditing for Boeing's world headquarters in Seattle, Wash. Activities have been scheduled to celebrate the 100,000th-member milestone at The IIA's International Conference.

### Increased IT spending doesn't always mean better delivery

See how mid-sized organizations are failing to deliver many key projects despite increased technology spending in the latest issue of [ITAudit](#). The new issue also covers auditing information security messes and managing IT risk management priorities.

### Proposed standard addresses reporting on the elimination of a material weakness

The Public Company Accounting Oversight Board (PCAOB) recently voted to propose for public comment a standard that would apply when auditors report on the elimination of a material weakness in a company's internal control over financial reporting. [Read more](#) on the PCAOB site.

### New research report explores Sarbanes-Oxley costs vs. benefits

Companies have struggled to implement the internal control provisions of the U.S. Sarbanes-Oxley Act of 2002, and costs have been high. Few studies, however, have systematically looked at the benefits. This IIA Research Foundation report identifies control improvements that have occurred as a result of Section 404 evaluations and identifies lessons learned.

## ADVERTISEMENT POLICY

**FREE** recruiting advertisements are available on the local IIA Chapter website and in the monthly newsletter! *Any employer is eligible for free advertising IF* at least one employee is a member of the Institute of Internal Auditors, Louisville Chapter. Executive Search Firms will be charged a nominal fee of \$50 for ½ page advertisement and one month of posting open positions on our webpage. Payment must be received prior to advertising / posting. For more information, contact the IIA Louisville Chapter President at [president@iialou.org](mailto:president@iialou.org) or Secretary at [secretary@iialou.org](mailto:secretary@iialou.org).

## NATIONAL CALENDAR

### MAY, 2005

9 - 13  
Seminars,  
San Francisco, FL

23 - 27  
Seminars.  
Orlando, FL

23 - 25  
Financial Services  
Conference,  
Philadelphia, PA

### JUNE, 2005

6 - 10  
Seminars,  
New York, NY

13 - 17  
Seminars.  
San Francisco, CA

20 - 24  
Seminars,  
Toronto, Ontario

### JULY, 2005

10 - 13  
2005 IIA International  
Conference  
Chicago, IL

18 - 22  
Seminars.  
Chicago, IL &  
Manhattan, NY

25 - 29  
Seminars,  
Boston, MA

## 2004 – 2005 MEETING SCHEDULE

### Louisville Chapter

**5/13/05**  
**friday**  
**12 – 1 presentation**  
**1-2 buffet lunch**  
**races begin at 2:40**

**Auditing the Gaming Industry**  
Brian Johnson – Churchill Downs  
at *The Turf Club, Churchill Downs*

#### ADVERTISEMENT

Bring your career to life with Kindred Healthcare, a leading long-term healthcare provider committed to delivering the highest levels of quality and service for our patients, residents, customers and employees.

In our corporate office in Louisville, Kentucky, you'll earn a competitive salary, while enjoying a comprehensive benefit plan including a 401(k). Our modern corporate headquarters includes an on-site fitness center, full-scale cafeteria, beautiful courtyard, next door childcare and state-of-the-art hardware and software provided to all employees.

We are recruiting the following position in our Corporate Audit Department:

**Internal Auditor** - This position is responsible for performing financial and internal control audits of the company's nursing centers, pharmacies, hospitals, hospital cost reports, and/or corporate office operations. The position requires up to 20% travel to our facilities that are located nationwide. A minimum of two years of internal auditing, public accounting, or Medicare/Medicaid cost reporting experience is necessary. A Bachelor's Degree in Accounting or Finance is required. A CPA and/or CIA certification is a plus.

This position is an excellent opportunity to gain valuable operational experience and to develop expertise in a department filled with career enhancement opportunities. Successful candidates for this position will be dynamic, self-motivated individuals who think creatively and are able to thrive in a challenging work environment that rewards performance.

If you or someone you know would be interested in these opportunities with Kindred, please contact us at the following address:

KINDRED HEALTHCARE, INC. –  
ATTN: MS. TERRI MONTGOMERY  
680 SOUTH FOURTH AVENUE  
LOUISVILLE, KY 40202

Fax: (502) 596-4722 or Email to [Terri.Montgomery@KindredHealthcare.com](mailto:Terri.Montgomery@KindredHealthcare.com)

**HAVE A SAFE AND HAPPY  
SUMMER!**  
**See you in September!**



## THE TRI-STATE CHAPTER OF THE INSTITUTE OF INTERNAL AUDITORS

*The Tri-State Chapter of the IIA is proud to present*

### Access Unleashed:

Using the powerful data analysis functions of Microsoft Access for value-added audit findings and Continuous Monitoring Techniques

*Presented by*

Mark Nigrini, Ph.D.

When: June 8<sup>th</sup> and 9<sup>th</sup>, 2005 (Tentative)  
8:00-4:30

Where: Evansville, IN  
Location to Be Determined

Cost: \$150 each day (\$300 both days) IIA/ISACA members  
\$175 each day (\$350 both days) non-members  
Cost includes 7 hours CPE each day, study materials (including Dr. Nigrini's book "Using Microsoft® Access for Data Analysis and Interrogation", a \$70 value!) breakfast, and lunch

### ***Sign up for one day or both days!***

#### DAY 1

The first day session covers the material that would be of most interest to corporate management, audit management, external auditors, and internal auditors that wish to use data analysis as a powerful audit tool. The first day session is therefore of interest to those persons that would actively do or supervise the data analysis work.

#### DAY 2

The second day session is a **hands-on** session in which we will review Microsoft Access and perform some of the data analysis work in a hands-on environment. The second day will also address the complications that will arise in doing the work such as data import issues, formulating queries, and documenting and reporting results. Documentation, data sets, and templates will be provided for both days. **Bring your laptop!**

You do **NOT** need Microsoft Access experience to attend!

**HURRY!** Space is limited!

Register by April 29, 2005 or contact Sarah Ward by email at [sarah\\_ward@oldnational.com](mailto:sarah_ward@oldnational.com) or Tony Mattingly at [tony\\_mattingly@oldnational.com](mailto:tony_mattingly@oldnational.com).

### Do you want:

- To know how a mathematical finding can help you uncover fraud and other irregularities?
- To learn about the architecture of Microsoft Access and to find out how this can be your data interrogation tool for large data sets?
- State-of-the-art data analysis technologies in your audit reviews?
- Value-added activities that management will rave about?
- To learn about the three-D approaches to Continuous Monitoring?
- Hands-on experience with real data and real results?

### Here is your opportunity to learn more about:

- Benford's Law (It's a secret law of numbers)
- Innovative data analysis techniques for both revenues and payments
- How Microsoft Access can be used as a rigorous data analysis tool
- The state of the art on Continuous Monitoring with a tie in to Sarbanes-Oxley 404

### Do you need to buy software to do all of the above?

- No! If you have Microsoft Access then your software is just a double-click away.
- One of the three-D approaches to Continuous Monitoring (Discriminant Analysis) will require the purchase of statistical software. Seminar will reveal a low-cost solution for this specific application.

### Outline:

- Describe Benford's Law and how auditors can use this as a powerful analytical procedures test
- Discussion of fourteen data analysis tests (in a case study format) with tips, hints, and notes for auditors, with demonstrations of some of the tests in Microsoft Access on the first-day
- Continuous Monitoring session:
  - ⇒ Review section 404 of the Sarbanes-Oxley Act
  - ⇒ Review an application of using Discriminant Analysis in Continuous Monitoring for fraud. Discuss the software available for this task.
  - ⇒ Review three examples of Detection formulas in Continuous Monitoring for fraud.
  - ⇒ Review Benford's Law and show how the Digit and Number patterns can be used in Continuous Monitoring
- Demo of two proactive fraud detection techniques in practice (free software available from Texas SAO)
- Review of the architecture of MS Access and the elements of good database design
- Review the elements of Access designed specifically for data analysis
- Hands-on data interrogation work using real corporate data, **government data**, and **Nigrini's templates**.

**Note:** You don't need Access experience! Each attendee will be given a copy of Mark's book: *"Using Microsoft® Access for Data Analysis and Interrogation"*. The book includes data sets and Excel templates so that the tests in the book can be practiced on your own computer. (The retail-selling price for this book \$70!

To learn more for this book, please visit

[http://www.nigrini.com/data\\_analysis\\_books/data\\_analysis\\_using\\_access.htm](http://www.nigrini.com/data_analysis_books/data_analysis_using_access.htm).)

**Second-Day Note:** The second day will include data sets, templates, and documentation showing how to perform Continuous Monitoring tests in Microsoft Access.

## FIRST-DAY (JUNE 8, 2005)

### Morning session (8:30am to 12:00 noon):

Introduction and Benford's Law introduction

Benford's Law and authentic data (census, purchasing cards, retailer)

Benford's Law and fraudulent data (payroll data, sales data,

Benford's Law and California election data (the election for governor in 2003)

Tax return data (including a look at the Clinton tax returns)

Case study demonstrating seven data analysis tests using data from a real California company:

- A Data Profile
- A Basic Digit Tests
- A Number Duplication test
- A Largest subsets
- A Relative Size Factor
- A Same-Same-Same, and
- A Same-Same-Different

Continuous Monitoring session:

- ⇒ Review internal control principles and section 404 of the Sarbanes-Oxley Act
- ⇒ Review an application of using Discriminant Analysis in Continuous Monitoring for fraud.  
Discuss the software available for this task.
- ⇒ Review three examples of Detection formulas in Continuous Monitoring for fraud.
- ⇒ Review the use of Digit and Number patterns in Continuous Monitoring
- ⇒ Review of two proactive fraud detection techniques in practice (free software available from Texas SAO)

### Afternoon session (1:00pm to 4:30pm):

Earnings manipulation short session: Analysis of Earnings Reports and published Enron numbers

Continuation of California case study

Review of the functionality of Access and its ability for fraud detection auditing:

- A Architecture of Microsoft Access (Tables, Queries, Forms, Reports, etc.)
- A Features of Access facilitating Data Analysis
- A Types of Queries
- A Importing data into Access

@ Demonstration of four data analysis tests in Microsoft Access (see morning session)

Review of using three innovative statistical techniques that are known and available to statisticians but that have not yet been used in auditing as analytical procedures and to detect anomalies and fraud. Hint: One of these techniques is time-series analysis.

Conclusion:

- A Benford's Law and the "Da Vinci Code"

## SECOND-DAY (JUNE 9, 2005)

### Topics to be covered include:

A more detailed review of the Architecture of Access with a view to designing data analysis routines that can be used by others in your audit environment. In these situations the system needs to be menu driven.

Importing data into Access.

Importing data "with problems" into Access. Examples of problems include blank fields, characters such as '---' used to denote zeroes, and data that is in an Excel spreadsheet format that needs to be converted to a database format through the use of Make-Table and Append or Delete queries.

Running the basic digital analysis tests (data profile, basic digit tests, and number duplication test) in Access and exporting the results to Excel for graphs and presentation.

Advanced work on the above using a Union query.

Running selected advanced digital analysis tests in Access and presenting the results to audit management and documenting the tests run. Seminar will cover innovative techniques such as reporting the Top Values.

Using correlation and a powerful data interrogation procedure with a hands-on exercise on election data that requires such an analysis and the presentation of the results.

### Speaker Bio



Mark J. Nigrini, Ph.D. is on the faculty at Saint Michael's College in Burlington, Vermont where he teaches managerial accounting and auditing courses. He was formerly on the faculty at the Cox School of Business at Southern Methodist University. His current line of research addresses continuous monitoring technologies and the detection of earnings manipulation.

In 1995 his data analysis work was publicized in *The Wall Street Journal*, *Canadian Business*, *Technology in Government*, *Contingencies*, *The Globe and Mail*, and *CA Magazine*, among others. His work has also been written about in publications such as *The Financial Times*, *The New York Times*, *Der Spiegel*, *Business Week*, *Dallas Morning News*, *Philadelphia Inquirer*, *The Journal of Accountancy*, and *USA Today*. He has presented numerous academic seminars and professional seminars for accountants in North America and abroad. He has published papers on Digital Analysis in academic journals such as *The Journal of the American Taxation Association*, *Auditing: A Journal of Practice and Theory*, *The Journal of Accounting Education*, and *The Review of Accounting and Finance (forthcoming)* and in practitioner journals such as *Internal Auditor*, *Journal of Accountancy*, *IT Audit Forum*, *The White Paper*, and *IEEE Potentials*. Mark has also written four web-based seminars for the IIA's web-based seminars at [www.auditlearning.org](http://www.auditlearning.org).

Mark J. Nigrini is the author of *Digital Analysis Using Benford's Law: Tests and Statistics for Auditors* and *Using Microsoft Access for Data Analysis and Interrogation*. To learn more about Mark and his books, visit **his website at**