

## IACA's Mission

Institute Audit, Compliance & Advisement promotes a strong internal control environment by objectively and independently assessing risks and controls; evaluating business processes for efficiency, effectiveness, and compliance; providing management advisory services; and offering training to the University community. We focus on preserving the resources of the University for use by our students as they prepare for successful careers in a global society.

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# the Quaestor Quarterly

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quaes · tor [kwes'tôr] 'one who asks questions'

## Well, at least it's not FRAUD...

When it comes to measuring the cost of fraud in the United States, the Association of Certified Fraud Examiner's (ACFE) 2010 Report to the Nations on Occupational Fraud and Abuse (the Report) estimates that "a typical organization loses 5% of its annual revenue to occupational fraud." The definition of occupational fraud is "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets."

Interestingly, the statistic included in the Report appears to only pertain to fraud; they fail to mention abuse, which is clearly mentioned in the title of the Report. Abuse is likely as costly and surely happens much more frequently than fraud. In my experience, however, professional publications fail to appropriately define and measure occupational abuse. Whereas articles and guidance on fraud are abundant, relatively little information is available on the topic of financial abuse. Perhaps this is because abuse is much more of a gray area.

Abuse can be considered more as bending the rules than breaking them. The ACFE's founder, Joseph Wells, stated in a 1996 article that "the line between fraud and abuse is a fine one." He states that for an activity to be considered fraud, it must have **all 4** of the following attributes:

1. The activity is clandestine (executed in secrecy or concealment).
2. The activity is committed for the purpose of direct or indirect financial benefit to the employee.
3. The activity violates the employee's fiduciary duties to the organization.
4. The activity costs the employing organization assets, revenues or reserves.

For an activity to be considered abuse, only the last two criteria need to be in place. As you can see, the commonalities between fraud and abuse are that they both violate the employee's fiduciary responsibilities and result in costs to the employer. Avoiding abuse of RIT funds is as simple as being a better steward of the funds. A "good steward" does what is in the best interest of RIT (being a responsible fiduciary).

## Well, at least it's not FRAUD...

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A good litmus test of whether something is a potential abuse of RIT's funds is to consider the following - would you feel comfortable walking up to a student on the Quarter Mile and saying "guess what my department just spent some of your tuition dollars on?" If the thought of that makes you feel uncomfortable, then maybe the expenditure is not a wise one. Think about this example as you carry out your stewardship responsibilities. Abuse really goes toward the idea of excessiveness. As you consider departmental financial outlays, ask yourself these questions: "Do I (we) really need it?" and "What would I choose if I had to pay for it from personal funds?"

Fraud is a crime that requires the fraudster to have the opportunity to commit the crime (usually due to poor internal controls), to rationalize in their minds that the crime is worth the risk taken, and to have some sort of pressing financial need. When these factors are aligned, fraud can be difficult to prevent and detect. However, abuse is much more obvious and can often be prevented if the stewards of the funds were to simply "do the responsible thing" and make choices and decisions that are in the best financial interest of RIT. Let's not be satisfied with the statement, "well at least it's not fraud."

See the Pop Quiz Challenge on page 5 for examples of fraud and abuse.

~~ Contributed by Patrick Didas  
Associate Director, IACA

## Training Opportunities Provided by IACA

IACA's Internal Controls and Fraud in the Workplace classes have been merged into one effective February 1, 2011. This new class is two and one half hours in length and is a required class to receive the RIT Accounting Practices, Procedures, and Protocol Certificate of Completion.

To learn more about these important topics, sign up for IACA's Internal Controls and Fraud in the Workplace class at the CPD website:  
<http://finweb.rit.edu/cpd/leadership/internalcontrolsandfraud.html>

### Upcoming Sessions:

April 12, 2011 1:30 - 4:00 pm 2240 Louise Slaughter Hall	July 20, 2011 9:00 - 11:30 am 2140 Louise Slaughter Hall	October 13, 2011 1:30 - 4:00 pm 2140 Louise Slaughter Hall
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In the last newsletter, we reviewed some **internal control** process fundamentals including these concepts:

1. Internal control is a **process**; it's a means to an end;
2. It's effected by **people** at every level of the organization;
3. It provides only **reasonable assurance** to management and its governing board; and,
4. It's geared to the achievement of widely-shared organizational **objectives**.

Internal control is relevant to the organization as a whole and to each department or business activity.

In this edition, we'll review the five (5) interrelated components of internal control which are integrated into the management process. Each component is applicable and important to the achievement of the organization's operational objectives.

1. **Control Environment** – People, and the environment that they operate in, are the engine that drive an organization. The individual qualities of each person including integrity, values, and competence are the core of any business, including RIT. The control environment serves as the foundation for the other components.
2. **Risk Assessment** – Every organization must be attuned to, and be prepared to deal with, potential risks. The President and senior management of the University work with the Board of Trustees to set short and long-term objectives thereby ensuring that its activities and functions are aligned. It's equally important to establish systems to identify, analyze and effectively manage related risks.
3. **Control Activities** – Management must develop policies and perform procedures designed to ensure that the steps necessary to address risks which may prevent the organization from reaching its objectives are carried out.
4. **Information and Communication** – Information and communication systems enable employees to capture and share information that is required to successfully execute the operations of the organization.
5. **Monitoring** – Management is responsible to set up mechanisms to monitor the entire control process and to make modifications as circumstances and conditions change.

There is a direct relationship between the **objectives** of an organization (i.e., what it strives to achieve) and **internal control components** (i.e., what is required to achieve the objectives). Under the oversight of the board of trustees, RIT's management, faculty, and staff work together to achieve and sustain effective and efficient operations; reliable financial reporting; and, compliance with applicable laws and regulations. The interrelated components of internal control, which are built into the infrastructure of the University, are critical to RIT's ability to meet its operational objectives.

~~ Contributed by Lyn Kelly  
Controller and Assistant Treasurer

"I believe in evidence. I believe in observation, measurement, and reasoning, confirmed by independent observers.

I'll believe anything, no matter how wild and ridiculous, if there is evidence for it.

The wilder and more ridiculous something is, however, the firmer and more solid the evidence will have to be."

- Isaac Asimov, scientist and writer (1920-1992)

## Word on the Street

In my time at RIT, I have worked with Institute Audit Compliance and Advisement (IACA) on a number of issues, including two different types of engagements. In the past, I worked with IACA and Sponsored Research Services (SRS) on an audit of a newly operating compliance program (the Program) administered by the Office of Legal Affairs for Export Control review of sponsored research projects. The staff at IACA took the time to understand the complex regulatory subject matter, the compliance goals of the new process, and then structured their audit to account for a new program and procedures that were growing and changing on a quarterly basis. A productive planning meeting was a useful first step in orienting IACA to the issues to focus on and agree on the easiest way to provide their staff with the information needed for their review. IACA focused on the statistical records and audit trail of the export control review of sponsored research projects, as well as important follow-up details on certain reviews that benefited from their outside perspective. The audit process was useful to the continuing improvements of the Program and the Export Control review of sponsored research projects.

I also have worked with IACA in the past as part of multi-department efforts to create an overall Compliance Program for RIT. Since this engagement had more of a long-term planning and strategizing purpose involving other departments to capture current processes across campus and create new ones, it was a different type of interaction. Here, I was able to observe how IACA provided useful benchmarking information about similar programs at other universities, and offer process advice and suggestions for the new program based on their audit expertise and experience reviewing issues across campus.

In my experience, IACA can provide useful audit reviews of specific programs, but it also can offer advice and suggestions for improvements on financial, management, process, and compliance issues to departments and programs across campus.

-- Contributed by Denis Charlesworth  
Federal Contracting and Research  
Compliance Specialist

What about *ethics* in the workplace?

To learn more about  
**RIT's Code of Conduct**  
and the RIT Ethics Hotline, check out

<http://finweb.rit.edu/svp/ethics/>



~ Ask the Auditor ~

Submit a question to the IACA webpage <http://finweb.rit.edu/iaca/forms/ask/> by February 28, 2011. If your question is chosen for publication in our newsletter, you will receive a prize valued at \$15.

IACA TEAM:

**Steven M. Morse '86, CPA**  
assistant vice president  
475-7943

**Patrick M. Didas '90, CPA, CFE**  
associate director  
475-6826

**Wendy J. Roy, CPA**  
senior internal auditor  
475-7011

**Nancy A. Nasca, CPA**  
senior internal auditor  
475-5293

**Elisa M. Cockburn, CPA**  
senior internal auditor  
475-7849

**Christine M. VanHemel**  
staff & audit assistant  
475-7647

**Daniel C. Brugger**  
co-op student internal auditor  
475-4318

Pop Quiz Challenge

Take the Pop Quiz Challenge! Correctly answer the question below and you will be entered in a drawing to win a prize valued at \$15. One lucky winner will be chosen randomly and notified by email.

**Question: Only one of the following scenarios represents fraudulent activity while the rest are financial abuse. Select the fraudulent activity.**

- A. Providing a pizza delivery driver a 34% (\$80) tip on a \$240 order.
- B. Unnecessarily spending down the department budget at the end of the fiscal year in order to “use it or lose it.”
- C. Rounding up hours recorded on a time sheet (i.e., actual hours worked are 8:05 – 4:55; but for time sheet purposes 8:00 – 5:00 is recorded).
- D. Turning down the meals included in a conference registration fee and purchasing different meal choices for reimbursement.

**Post your answer to our Quiz webpage at:**

<https://finweb.rit.edu/iaca/forms/quiz/>

*The winner’s name and answer will be included in the Spring ’11 Quaestor Quarterly Newsletter.*

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Congratulations to Jennifer Rivera from the Student Health Center for correctly answering the Fall issue’s Pop Quiz question.

The question and the correct answer was:

**What is a healthy “Tone at the Top?”:**

- A. A beauty bar on the upper shelf at Wegmans.
- B. back row choir singer’s ability to carry a tune.
- C. A descriptor for some hairstyles seen around campus.
- D. A visible willingness by management to let values drive decisions, to prioritize those values above other factors, and to expect all others in the organization to do the same.

Correct