R·I·T

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.

Institute Audit, Compliance & Advisement

In These Times, Be Vigilant

Vigilant is derived from the Latin word *vigilare - to keep watch, stay awake.* I find this word origin to be very fitting because I can attest that in most of the instances of fraud that I have investigated, the fraud scheme was compounded by the fact that a manager was not as "awake" from a fiscal responsibility sense as they should have been.

In this economic recession, everyone needs to be more aware of internal controls and the potential for fraud. We know that most employees are honest; however, research shows that even honest people sometimes cross the line. According to the Association of Certified Fraud Examiners (ACFE) survey data, nearly 88% of fraudsters who get caught have no prior criminal record. In any organization, management must pay attention to the very real risk that *some* people within their organizations will at one point or another commit fraud. The question becomes why do they do it?

The research of Professors Richard C. Hollinger, formerly of Purdue University, and John P. Clark, of the University of Minnesota, has been cited by ACFE founder Joseph Wells in his *Corporate Fraud Handbook*, which states that "all age groups of employees who are dissatisfied with their jobs…are the most likely to seek redress through counterproductive or illegal behavior in order to right the perceived inequity." What does this mean? An organization can have great internal controls, anti-fraud audit procedures, and monitoring procedures in place, but a sufficiently alienated employee will try to steal from, cheat, or sabotage the organization.

Interestingly, the researchers published their work in 1983. In today's economy, its conclusions seem more appropriate than ever because there has never been as great a sense of employee disenfranchisement and disaffection toward the organizations that employ them. One example of this is the shorter tenure that people have with employers nowadays.

The Fraud Triangle, a fraud motives concept dating to the 1940's, states that a fraud can occur when the right pressure, opportunity and rationalization exists. In recent years, there has been discussion of a theory that the triangle should become a diamond with the fourth motive for committing fraud being the sense of employee alienation and disenfranchisement. This is attributable to the "layoff culture" of a poor economy that is fueled by the accelerated disappearance of pay increases, benefits, foreign outsourcing, and increasingly stressful workloads.

In a layoff culture, some employees may react to this by working harder than ever in an attempt to improve their chances of being spared by the next round of downsizing. But other employees may start to slack off, look elsewhere for employment, and/or *start stealing from the organization.* The bottom line is that when employees are made to feel disposable, they are apt to develop a self-preservation mentality. They lose all sense of "belonging" to the community and may start to focus on "looking out for number one."

I know this sounds gloomy, but the positive side in Hollinger and Clark's research is that "…a lowered prevalence of employee theft may be one valuable consequence of a management team that is responsive to the current perceptions and attitudes of its workforce." I think this can be said for RIT. Remember, to mitigate internal fraud risk, organizations must conduct regular risk assessments, implement effective controls, and be aware of changes in employee behavior.

~ Patrick Didas, Associate Director
Institute Audit, Compliance & Advisement

Control of the Quarter

Internal Control over Compliance
In the last several newsletters, we've discussed the five interrelated components of internal control as well as who is responsible for internal control. In the next few newsletters, we're providing real-life examples of how a system of internal control is built into the University's infrastructure and is a fundamental part of our operation. In this issue, we'll discuss controls over compliance with the laws and regulations applicable to sponsored research.

Governing Requirements
The Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, contains the primary requirements applicable to Federal grants, contracts, and cooperative agreements. The most significant requirement, and one that attracts the most scrutiny from federal officials, relates to "effort reporting." Effort reporting is the process to ensure that the commitment promised in research proposals, and the salaries subsequently charged to sponsored projects via the payroll distribution system, are properly supported and accounted for in accordance with A-21 requirements. At RIT, Human Resources (HR), the Payroll Office, and Sponsored Programs Accounting (SPA) have put in place several control activities, and information, communication and monitoring controls to ensure that payroll charges for faculty and professional staff are estimated, accurately distributed, certified in a timely manner, and documented in accordance with A-21.

- **Control Activities**
  - **Employee Action Forms (EAF)** – EAFs are used to distribute payroll expenses for new employees or when there is a change in an employee's payroll distribution. On sponsored projects, the faculty member (principal investigator – PI) responsible for the project must *approve* the EAF because they are intimately familiar with the scope and research activities of the project. Additionally, SPA *reviews* and *approves* all EAFs on sponsored projects for accuracy and consistency with the sponsor's approved budget prior to submitting them to HR for final processing.
  - **Quarterly Monitored Workload Reports (QMWR)** – OMB Circular A-21 requires that all colleges and universities establish and maintain "effort reporting" systems to confirm that salaries and wages charged to sponsored projects are consistent with the effort actually spent working on the projects. Four times a year, SPA obtains and *reconciles* payroll information to the respective grant project statements and then distributes QMWRs to PIs who confirm that the charges are reasonable in relation to the work performed on the project. PIs must review the QMWRs for reasonableness and then return the signed forms to SPA in a timely manner.

- **Information and Communication**
  - **60-Day Letters** – To avoid delays and errors in the distribution of the employee's payroll charges, 60 days prior to the end-date on the EAF, SPA sends email notifications requesting that faculty and staff prepare and submit new EAFs.
  - **Sponsored Programs (SPARC) Training** – SPA communicates compliance information related to "effort reporting" through the SPARC training program, its quarterly newsletter, and the department's website (http://finweb.rit.edu/controller/sponsored/).

- **Monitoring**
  - **Billing and Reporting** – SPA tracks and monitors the distribution and certification of QMWRs electronically via its *Billing and Financial Reporting Database*. When a QMWR is not returned to SPA within the required timeframe, the department sends weekly emails to remind PIs of the federal "effort reporting" requirement.
  - **Management Self-Assessment (MSA)** – SPA monitors aspects of the "effort reporting" system through a MSA process, a review of internal controls conducted annually by the Finance & Administration Division.

The controls over federal "effort reporting" and other compliance requirements are important, not only to ensure the accuracy of the University's grant financial records and the proper stewardship of federal funds, but also to reduce the legal and reputational risk associated with non-compliance with the various laws and regulations that are part of every research agreement.

In the next newsletter we'll discuss controls over the procurement process.

~ Lyn Kelly, Controller and Assistant Treasurer
Controller's Office

Ensure that your department has established and is maintaining good internal controls.

To learn more about internal controls, sign up for Internal Controls Training.

Upcoming sessions:

July 21, 2009
9:00 am - 11:00 am
Location: CIMS 2140

September 29, 2009
9:00 am - 11:00 am
Location: CIMS 2140

Sign up at the CPD website
https://finweb.rit.edu/cpd/leadership/cares.html
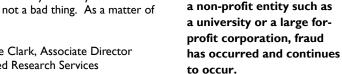
Word on the Street

Every other year the Sponsored Research Services office is required to have the *Policy for Externally Sponsored Projects* audited by RIT's internal audit staff. There are two ways to look at the situation: every other year we could have lots of anxiety and concern over the upcoming audit, or we could look forward to the opportunity to have an additional point of view on our processes and implementation of the Policy. We have been through several of these audits and I can say that we do not have a sense of foreboding but instead, a feeling of opportunity. Initially, there was some concern that the audits only point out the bad things we do with no mention of the good. Would they not stop until they found "something," how long will it take, how far will this go? It turns out that our initial fears were unfounded and we have come to appreciate the review and the benefits the audits have provided.

For each of the audits, we have an entrance meeting in which we review the scope of the audit. This step is very important in helping the people from our office understand the level of involvement that will be necessary and to answer any concerns they may have. I have found the internal audit staff to be very considerate of the time demands put on our staff that are necessary to respond to their inquiries. We communicate with the auditors regularly on both the overall audit status and individual aspects of the process.

This year, we had converted the paper Notice of Award process to electronic. We discussed this at the entrance meeting and indicated that we really wanted them to review the system and give us feedback. A lot of time and effort went into the development of the new process and having another set of eyes to confirm that we covered all aspects of the Policy sufficiently, or perhaps did not, was greatly appreciated. Nothing could have been worse from our perspective to find out that after all our efforts we had a major gap in our new process. Although that was not the case, we received suggestions for additional items and methods that we could use to assist us in improving our procedures. When you deal with a process every day, it is difficult to step back and see any gaps. The audit staff gave the new system a thorough review and provided some very insightful ideas which we are in the process of implementing.

I would like to thank our internal audit staff for their efforts in reviewing our new system. While we do not always agree with every suggestion, they are certainly appreciated and taken very seriously. We can all stand to improve our processes a bit and a helpful "look under the hood" is not a bad thing. As a matter of fact, we do it on a biannual basis and look forward to it.

~ Katherine Clark, Associate Director
Sponsored Research Services

In the Spotlight — IACA's Co-op Student Internal Auditor

Congratulations, Maryna Nadtochii!!

We are all very proud of you and your accomplishments, including:
- Your graduation from the Saunders College with highest honors
- Being recognized by the Rochester Chapter of Financial Executives International as an outstanding student
- Winning The Institute of Internal Auditors (Rochester chapter) Scholarship
- Being admitted to the Beta Gamma Sigma Honor Society

We wish you the best of luck in graduate school and in your career.

Occupational fraud can be found in any workplace. Whether an organization is a non-profit entity such as a university or a large for-profit corporation, fraud has occurred and continues to occur.

To learn more about occupational fraud, sign up for Fraud in the Workplace Training.

Upcoming Sessions:

July 28, 2009
9:00 am - 11:00 am
Location: CIMS 2140

October 20, 2009
9:00 am - 11:00 am
Location: CIMS 2140

Sign up at the CPD website
https://finweb.rit.edu/cpd/leadership/fraud.html

Ask the Auditor ~

Submit a question to the IACA webpage
http://finweb.rit.edu/iaca/forms/ask/
by June 30, 2009. If your question is chosen for publication in our newsletter, you will receive a prize valued at $15.

IACA TEAM:

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Patrick M. Didas '90, CPA, CFE
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Maryna V. Nadtochii
co-op student internal auditor
475-4318

R·I·T

Ask the Auditor

Question:
What is Internal Auditing?

Answer:
Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations by employing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. In other words, internal auditors evaluate if what is supposed to be done is actually being done, and in the best way possible.

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 worth $10. One lucky winner will be chosen randomly and notified by email.

Question: In the education industry, billing schemes were the #1 occupational fraud type at 34% of all cases reported in the Association of Certified Fraud Examiners 2008 Report to the Nation. This compares to all industry types reporting 24% of all cases as billing schemes. The #2 occupational fraud type in the education industry is expense reimbursement schemes at 24% of all cases reported. What percent of all types of industries' occupational fraud schemes are expense reimbursement schemes?

    A.   22%
    B.   19%
    C.   17%
    D.   13%

See our Quiz webpage to post your answer:
https://finweb.rit.edu/iaca/forms/quiz/

The winner's name and answer will be included in the Summer '09 newsletter.

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Congratulations to Robin Amico of the Center for Residence Life for correctly answering the Winter issue's Pop Quiz question.

The question and the correct answer was:

"Institute Audit, Compliance & Advisement's responsibilities include all of the following except:"

    B.   To create policies for university departments to follow

What about *ethics* in the workplace?
**To learn more about RIT's Code of Conduct
and the Ethics Hotline, check out
http://finweb.rit.edu/svp/ethics/**