

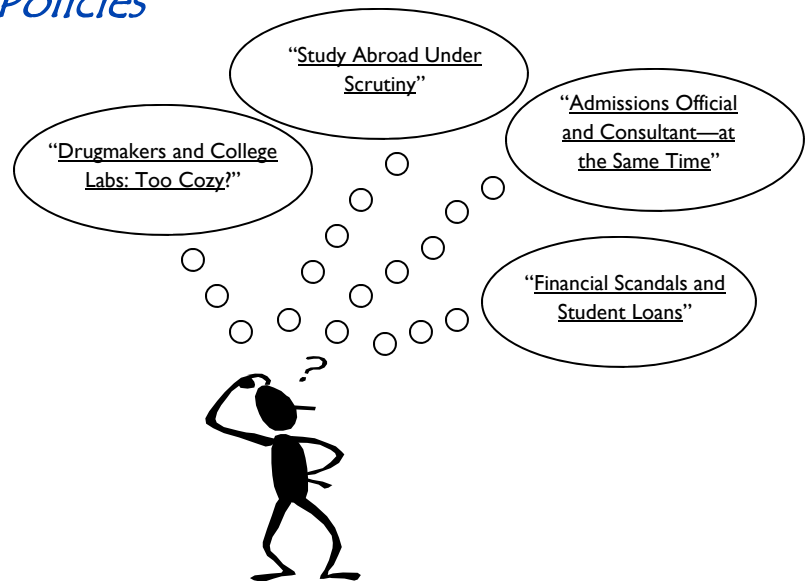
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quaes · tor [kwes'tôr] 'one who asks questions'

The Genesis of Higher Education Conflict of Interest Policies



With recent scandals in the news such as these, it's no wonder that there has been closer scrutiny of college and university conflict of interest policies by Federal, State and other regulatory agencies. The common denominator in each of these scandals is that they involved alleged fraudulent activities resulting from a perceived or actual conflict of interest that was not disclosed to the university. A brief synopsis of the actual/perceived conflicts for each of these scandals is as follows:

- The background pertaining to "Drugmakers and College Labs: Too Cozy," involves allegations that medical researchers at Harvard and Stanford failed to disclose that they received millions in payments from large pharmaceutical companies. The conflict in these situations is the risk that academic researchers who receive consulting fees from pharmaceutical companies may not be objective when publishing the results of studies involving drugs developed by these companies.
- Study abroad programs have recently been under scrutiny due to allegations that study abroad employees received incentives from third-party study abroad providers such as free travel abroad, stipends to market the programs to students, and commissions based on student-paid fees. The conflict in these situations is that students are being persuaded to participate in study abroad programs which result in the largest incentives for the employee, not the largest benefit for the student.

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The Genesis of Higher Education Conflict of Interest Policies

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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:

November 18, 2008
9:00 am - 11:00 am
Location: CIMS 2140

February 3, 2009
9:00 am - 11:00 am
Location: CIMS 2140

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

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

- College admissions employees are being questioned on perceived conflicts of interest related to concurrent consulting jobs where they advise students and families on how to get into college. The conflict in these situations is that the admissions employees may not be objective when evaluating whether students who also utilize their consulting services meet the admission criteria for the university for which they work.
- The student loan scandals which have erupted throughout higher education institutions relate to financial aid office employees receiving alleged kickbacks and benefits from lenders for directing students to these loan providers. In these situations, financial aid office employees direct students to obtain loans from "preferred vendors" based on the benefits that they received from these lenders (i.e. cash payments, computer equipment, enhanced services) instead of what might be the best arrangement for the student (i.e. lowest interest rate).

As you can see from these diverse examples, conflict of interest opportunities are pervasive throughout institutions of higher education. As a result, there has been increased scrutiny and focus on how to best address conflict of interest concerns by federal and state regulatory agencies and higher education consortiums. Some examples include:

- The New York State Attorney General has issued a "Student Loan Code of Conduct," which limits the perks and benefits that a university may receive from a lender and outlines preferred lender guidelines and disclosures.
- The IRS has expanded disclosure requirements in the revised Form 990 (non-profit annual tax form) to include disclosures regarding whether non-profit organizations have a written conflict of interest policy, which includes written procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest and prescribes a course of action in the event a conflict of interest is identified.
- The Independent Educational Consultants Association has changed its ethics code to bar people who work in college admissions from also working as private college admissions consultants.
- The Journal of the American Medical Association revised its conflict of interest policy requiring authors to divulge, in the acknowledgment section of articles, any financial ties to the subjects they are writing about.
- The Association of American Medical Colleges and the Association of American Universities recently issued a report on "Financial Conflicts of Interest in Human Subjects Research" which recommends the implementation of an institutional conflict of interest reporting, evaluation, and management process, as well as, the creation of an objective and credible institutional conflict of interest review process involving the creation of a standing internal committee or an external review entity.

In general, the common theme throughout the above guidance and regulations is that a key control to managing conflict of interest concerns in institutions of higher education is the existence of a formal written conflict of interest policy which requires employees at all levels of the organization to fully disclose any perceived or actual conflicts of interest. Once these conflicts are disclosed, the majority of these situations will most likely be able to be accepted and managed rather than requiring that they be eliminated.

In response to the recent scrutiny and focus on conflict of interest concerns, RIT has created a conflict of interest policy (*Individual Conflict of Interest and Commitment Policy*) consistent with the general recommendations made by the above-mentioned agencies and consortiums. This new policy, which is being rolled-out in phases, requires that all regular RIT employees complete an on-line disclosure process on an annual basis. To learn more about RIT's conflict of interest policy and procedures, you can visit the Finance & Administration Office of Legal Affairs website at: <http://finweb.rit.edu/legalaffairs/compliance.htm>

~ Nancy Nasca
Sr. Internal Auditor

Control of the Quarter

In the last several newsletters, we've reviewed each of the five interrelated components of the internal control process including:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

In the last issue we discussed "monitoring," the final internal control. Monitoring involves an ongoing assessment of the design and operation of controls and, when required, taking the appropriate action to ensure that they continue to operate effectively. In this issue, we'll wrap up our review of this topic with a brief discussion of who is primarily responsible for internal control. Here's a brief list of the various parties at RIT that play a role in this important process:

1. Board of Trustees

- Management is accountable to the board of trustees which provides governance, guidance and oversight to the organization. Through its selection of management, the board defines its expectations regarding integrity and ethical values and, on an ongoing basis, it confirms its expectations through its oversight activities. The RIT Board carries out its responsibilities through various committees including audit and finance.

2. Management

- Chief Executive Officer/President – By providing leadership and direction to the senior management of the university, the President fulfills his responsibility to ensure that the components of internal control are in place. Together with his senior management team, the President shapes the values, principles and operating policies which in turn, provide the foundation of the University's system of internal controls.
- Senior Management – Each of the senior managers of the University have responsibility for internal control related to their division's objectives. They guide the development of internal control policies and procedures, ensuring consistency with the goals and objectives of the University.
- Department Managers/Supervisors – At this level, managers are directly involved in executing internal control policies and procedures and taking action on exceptions and other problems when they occur. This includes monitoring their department's budget throughout the year (compared to actual activity), researching unusual transactions, etc.
- Office of Budget & Financial Planning – Working directly with senior management, Budget Office staff develop and monitor institute-wide operating and capital plans which provide a solid financial foundation, allowing the University to meet its strategic objectives.
- Controller's Office – Accounting and finance staff track, analyze and report on performance, both from an operational and compliance perspective. They have primary responsibility for designing, implementing and monitoring the organization's financial reporting system and are, therefore, in a unique position to identify potential unusual situations caused by fraudulent reporting.

3. Internal Audit

- Internal audit staff review key functions throughout the university as charged by the audit committee of the board of trustees. They serve as a resource to management ensuring that financial, operational, and system controls are adequate and effective. The staff is in a position to provide thorough and objective reviews for improving the efficiency and effectiveness of operations.

A system of internal control is most effective when it is built into the organization's infrastructure thereby becoming a fundamental part of its operation. While each employee in the organization has some responsibility for internal control, management owns the system and is responsible for ensuring that it operates effectively. The long-term health and viability of the organization depends upon it.

~ Lyn Kelly
Controller & Assistant Treasurer



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:

October 14, 2008
9:00 am - 11:00 am
Location: CIMS 2140

February 5, 2009
9:00 am - 11:00 am
Location: CIMS 2140

April 7, 2009
9:00 am - 11:00 am
Location: CIMS 2140

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

Ask the Auditor ~



Submit a question to the IACA webpage <http://finweb.rit.edu/iaca/forms/ask/> by October 31, 2008. 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

executive director
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



Word on the Street

The Osher Lifelong Learning Institute at RIT (formerly The Athenaeum) has been in existence for 21 years. This past fall we learned from IACA that we would be undergoing a complete Audit Review of our program. Our initial reaction was that it would be an intrusive process that would take time away from the hectic day-to-day activities of running a program with over 450 members. However, once we met with the IACA folks they quickly put our minds at ease. They thoroughly laid out the time-line of the entire audit and let us know that they would be as unobtrusive as possible. Sure enough, they were true to their word.

As someone who is fairly new to the RIT family, it was extremely helpful to have the audit conducted. I learned invaluable details not only about our program's internal procedures but also about process requirements within RIT. The recommendations provided by IACA will help strengthen our program as we work to improve the areas that were identified in the audit in need of attention.

What I enjoyed most throughout the audit process was working with Pat, Steve and Megan. They were not only respectful of our time, but they all took the time to thoroughly learn and understand the unique details of our program. Their ability to analyze the information we shared and point out not only areas that need improvement but also to acknowledge areas that are being handled properly, was very reassuring to us. I would highly recommend the audit process to any department wanting to review their internal procedures.

~ Julie Blowers, Program Director
Osher Lifelong Learning Institute at RIT

Pop Quiz

The first reader to correctly answer the question below will win a prize worth \$10.

Question: According to the 2008 Association of Certified Fraud Examiners Report to the Nation, the Education industry ranks 21st out of 21 industries for the median size of fraud losses at \$58,000. What ranking out of the 21 industries does Education place for the percentage of total fraud cases reported (6.5%)?

- A. 21st
- B. 13th
- C. 6th
- D. 9th



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 next newsletter.

Congratulations to Thomas Connelly of RIT Interactive Adventures for being the first reader to correctly answer the April issue's Pop Quiz question.

The question and the correct answer for April was:

"Which of the following is not a legal element of fraud?"

- D. All of the above are legal elements of fraud.
(Included: a material false statement, intent, and reliance by the victim.)