Over the years, many risk management standards with their own definitions, methods, and goals have been created by such diverse entities as the Project Management Institute (PMI), the National Institute of Standards and Technology (NIST), and International Organization for Standardization (ISO). However, they all share the basic concept that risk management consists of the identification, assessment, and prioritization of risks in conjunction with efforts to minimize, monitor, and control the probability and/or impact of risk events. While countless books, articles, and other publications exist that explain the concept of risk management and its application, few are focused on risk management within Higher Education.

Like other industries, Higher Education operates in an inherently risky environment. Common risk categories include financial, operating, strategic, regulatory, environmental, and reputational risks. But unlike other industries, there are also risks unique to Higher Education such as FERPA, Title IX, and the Clery Act (Campus Safety).

Also unique to Higher Education is the often decentralized structure of the risk environment. The complexity of the Higher Education risk environment - made up of individual colleges, schools, departments, functional areas, and administrative departments - makes risk collection and prioritization a challenge from an enterprise risk management perspective. Below (fig. A) is a simple risk model illustrating risk ranking examples within a decentralized Higher Education risk environment as it relates to probability and impact.
Once risks have been identified, assessed, and prioritized within a risk inventory or portfolio, a strategy based on risk appetite is then implemented by management to minimize, monitor, and control the probability and/or impact of risk events. Strategies to manage risks typically include implementing measures to avoid the risk, transferring the risk to another party, reducing the negative effect or probability of the risk, or even accepting some or all of the potential or actual consequences of a particular risk. By effectively managing these risks, we can reduce the chance of loss, create greater stability, and protect resources to meet the expectations and needs of the faculty, staff and students.

To efficiently manage finite auditing resources, Institute Audit, Compliance & Advisement (IACA) has historically implemented a risk management based strategy to build our annual audit plan. On an annual basis IACA performs an internal risk assessment. The risk assessment process includes meeting with key stakeholders around campus to identify and assess risks. The identified risks are then used to populate a heat map of prioritized risks within the risk environment. Based on this heat map, the annual audit plan is created.

Robert J. Gee, former President of the National Graduate School of Quality Management, is being sued by Attorney General Martha Coakley for the repayment of millions of dollars to go back to the school after Gee misused the money for his own benefit. Over the years, Gee had used funds from the tiny college in Falmouth, Massachusetts for various things such as overcompensation of pay, a Mercedes, and a quarter-million dollar timeshare.

Gee was fired in 2012 following a review of the school’s tax returns and audit reports, which found that he had been stealing money from the college for his own personal gain. Having founded the school in 1997, Gee tried rationalizing his inflated salary, at over $700,000, as necessary because he was not only the president of the college, but the founder as well.

Besides spending the school’s coffers on new cars for his wife and himself, many of the fiscal issues arose in 2009 when Gee purchased a waterfront compound on Oyster Pond. With a breathtaking view of Martha’s Vineyard, Gee used the compound as his official residence by purchasing an adjoining home, and committed assets to the $3.36 million estate. After his firing, the properties were sold at a substantial financial loss.

In addition, the lawsuit pays particular attention to an employment agreement that gave Gee plenty of benefits, including paid unused sick days, use of a Caribbean timeshare, incentive payments, and tax bonuses. While the lawsuit, along with separate court filings, is focused more on the “civil responsibility,” Coakley says that she will not “rule out other things that may come to light.”

**Lesson Learned:** There was an apparent lack of oversight of how cash was being spent. Proper monitoring of transactions is always required.

COSO Corner

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

As explained in previous editions of the Quaestor Quarterly, the COSO Framework (internationally recognized standard against which the adequacy and effectiveness of an organization’s internal controls are evaluated) was updated in May 2013 to further define the principles underlying the five components of internal control (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring). According to the Framework, these principles are fundamental concepts that must be present and functioning in order to achieve an effective system of internal control. In addition, the Framework includes points of focus or characteristics that are examples of behaviors or processes that would be expected to be in place to demonstrate that the related principle is in fact present and functioning. This edition of the COSO Corner will summarize the third principle relating to the Control Environment component of the COSO Framework, as well as the related points of focus.

Principle 3 – Management establishes—with board oversight—structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

Points of Focus:

- Senior management and the board of directors establish the organizational structure and reporting lines necessary to plan, execute, control, and monitor operations. Key factors to consider when establishing organization structure include the nature and size of college and departmental operations; risks related to the Institute’s objectives and business processes; an appropriate segregation of duties to avoid conflicts of interest; and a structure which provides for clear accountability and information flows.

- The BOT and senior management delegate authority and define and assign responsibility to enable personnel to make decisions according to management’s directives toward the achievement of the university’s objectives. Delegating authority increases responsiveness but also increases the complexity of the risks to be managed.

- Senior management defines the limits of authority so that delegation occurs only to the extent required to achieve the university’s objectives and inappropriate risks are not accepted.


~~ Contributed by Nancy A. Nasca
Senior Internal Auditor
Institute Audit, Compliance & Advisement

“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)

What about ethics in the workplace?
To learn more about the RIT Ethics Hotline, check out http://www.rit.edu/fa/svp/content/ethics-and-compliance-hotline-whistleblower
Word on the Street

It is not surprising that most people get weak knees and the jitters when they hear the word ‘audit.’ This is natural. But what many people might not know is that our Institute Audit, Compliance, and Advisement (IACA Department) does much more than just auditing and, in fact, actually offers services to help units improve. A great example of this service is how IACA partnered with Academic Affairs to offer a “Better Business Essentials” training workshop for departmental chairs across the campus. This two-hour session encompassed a wide range of topics from Oracle ledgers, to student satisfaction (office hours, detailed syllabi, etc.), to information security. And the reaction from attendees was overwhelmingly enthusiastic.

One participant wrote “I was familiar with the correct procedures for some of the topics, but not all. For example, the information protocol addressing ‘segregation of duties’ was new and helpful, as was the section that addressed ‘Documentation of Critical Business Processes.’ I am very pleased with this partnership in support of developing academic leadership and I look forward to expanding the “Better Business Essentials” in the future. Thanks, IACA!”

~~ Jeremy Haefner
Provost and Senior Vice President for Academic Affairs
Rochester Institute of Technology

Watch IACA’s Monday Minute video series here!

This monthly one-minute video series focuses on opportunities for improving internal controls; we hope that you find the information beneficial. If you have questions, feel free to contact anyone in the IACA office using information located on our webpage.

Training Opportunities Provided by IACA

IACA’s Internal Controls and Fraud in the Workplace class is two and one half hours in length and is required in order to receive the RIT Accounting Practices, Procedures and Protocol Certificate of Completion. However, anyone interested in learning about internal controls and fraud prevention is welcome to attend.

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://www.rit.edu/fa/cpd/leadership/internalcontrolsandfraud.html

Upcoming Sessions:

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 13, 2015</td>
<td>1:30pm - 4:00pm</td>
<td>2140 Louise Slaughter Hall</td>
</tr>
<tr>
<td>April 21, 2015</td>
<td>9:00am - 11:30am</td>
<td>2140 Louise Slaughter Hall</td>
</tr>
</tbody>
</table>
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:
According to the lead article, what has IACA done to efficiently manage finite auditing resources?

A. Implemented a risk-based strategy to build an annual audit plan
B. Transferred risk to another party
C. Modeled risk concerns
D. Reduced probability of negative risks

Post your answer to our Quiz webpage at:
https://www.rit.edu/fa/iaca/content/quiz

**************************************************************

Congratulations to Joan Rausch from the Wallace Center for correctly answering the Spring issue’s Pop Quiz question.

The question and the correct answer were:

According to the lead article, what is often referred to as the “internal environment”?

A. RIT Ethics Hotline
B. Control environment  
C. A department or other entity
D. RIT’s Whistleblower Policy

Correct

**************************************************************

~ Ask the Auditor ~

Submit a question to the IACA webpage https://www.rit.edu/fa/iaca/forms/ask by January 31, 2015.
If your question is chosen for publication in our newsletter, you will receive a prize valued at $15.