

Centennial Events
Well Supported
by Mike DeCataldo, CPA

Upcoming Events
Networking Reception; *What
Counts* TV program

Government Affairs
Sen. Reed's Annual
Business Expo

One-on-One with
Gustave C. Coté
Distinguished Service in
Education

Professional News
Financial Literacy Program
Gets Legs in RI

Centennial
Celebrations

Small Business Fraud: CPAs Can Help Identify and Minimize Areas of Risk

Small businesses are most at risk for fraud abuse. According to the Association for Certified Fraud Examiners, organizations with 100 employees or less suffered higher losses due to fraud than their largest counterparts (with 10,000 employees or more). In fact, small business losses due to fraud averaged \$127,500 compared to \$97,000 for larger companies.

While it's nice to believe that we're good judges of character, smart small business owners make fraud prevention a priority and keep a close eye on operations. With the right resources and some effort, small business owners can fraud-proof their businesses just as effectively as big companies.

Fraud can happen to anyone

While no one likes to believe that they employ untrustworthy individuals, temptation and pressure can goad otherwise honest people into unethical actions. In a small business environment in particular, the atmosphere tends to be family oriented and can lead to being overly trusting. While there's an essential element of trust that must exist, caution should be exercised to not promote lax procedures and less stringent controls.

Asset misappropriation and corruption constitute the most common types of internal fraud. Asset appropriation includes both cash and non cash situations where an employee is taking or using something for his/her own use. Corruption is typically less common, but more expensive, and involves an employee working with someone outside of the company such as a vendor or buyer.



Quonset Point Development: an Invaluable Investment in Rhode Island's Future

What will the financial impact of this market-based real estate asset be?

Often referred to as "The Park," the Quonset-Davisville Port and Commerce Park currently caters to the industrial as well as commercial marketplace with tenants occupying space for uses such as manufacturing, commercial, and retail office buildings, warehouse storage units, as well as government and educational training facilities. The Rhode Island Economic Development Corporation (RIEDC) hopes to expand the Quonset development to further utilize the land by providing public and recreation services such as publicly-

Centennial Events Well Supported by Devoted Membership

I t's hard to believe that as I write this letter, I have already been president of the Rhode Island Society for six months. We are halfway through our centennial year and the three events that have been held to date have all been very well received. I was particularly impressed with the Gala. It was truly a special night that will be remembered for years to come. The band was exceptional, the food was great and the ballroom was spectacular. Congratulations to the centennial committee for a job well done.

Cynthia Lund from the AICPA spoke at Leadership Day and updated us on the current issues that effect our profession. We had record attendance, surpassing the previous high by more than 40 participants. Our other speakers did a great job informing us of various issues of interest including changes to the Board of Accountancy regulations and an update on the financial literacy project (refer to page 6).

Regarding the financial literacy project, I ask that all of you consider participating in some manner in this worthwhile project. The lack of

financial literacy in this country is a major problem. Not only does it effect specific individuals, but it also has a much broader impact on the country as a whole. When individuals cannot take care of themselves, the government in essence has to step in, affecting each and every one of us. For more information, I urge you to visit the AICPA website www.aicpa.org/financialliteracy/.

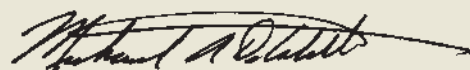
I was encouraged to hear that our reputation as "trusted advisors" has recovered since Enron and WorldCom. However, we should never take our responsibilities to our clients and the public lightly. As we recently found out, years of hard work can be undone overnight when we forget what has made us one of the country's most respected professions. It is our integrity, independence, and honesty in dealing with our clients that has always distinguished us from other professions. We should never lose sight of this fact.

I would also like to mention a program that I had the opportunity to participate in this summer. The AICPA's Ambassador Program is well worth the time and effort. This one-day program teaches

participants how to improve their public speaking skills, interview techniques and media interaction. It is very intensive training, but well worth the day's commitment.

I again want to thank all of those members who have generously supported our centennial events. Without your financial assistance and commitment of time, this year's centennial events would not be possible.

Sincerely,



Michael DeCataldo
RISCPA president



Mike DeCataldo, CPA
RISCPA President

Government Affairs

Annual Business Expo Hosted by Senator Reed

Each fall, Rhode Island business leaders have the opportunity to gather in Washington D.C. with members of Congress and the executive branch to discuss business issues and challenges. This past September marked the seventh annual Business Day, a program that was established by U.S. Senator Jack Reed. The discussions focus on the top issues that business professionals should be aware of, how these issues will affect them and their companies, and how they can tackle such issues.

According to Gregg McCarthy, Senator Jack Reed's press secretary, the purpose of the program is to offer a rare opportunity for Rhode Island business leaders to speak with federal agency representatives and members of Congress face to face. This enables them to find out what is going on at the federal government level that may affect their business.

"Our seventh conference was to date the most well attended and I believe it was seen as a success all around," said Senator Reed. "The focus and aim was to give businesses the tools and resources they need to continue to grow and prosper in the current economy."

Typically, the program includes a wide range of topics to help the attendees gain information in several areas. This year, topics included the economy, education, homeland security, budget issues, social security and tax reform. Speakers included ABC's This Week anchor and former chief of staff George Stephanopoulos, Senate Housing and Urban Affairs Committee Ranking Member Paul Sarbanes and N.Y. Senator and former First Lady Hilary Rodham Clinton.

Because the program gives business professionals the unique opportunity to have informal and personal discussions with officials from Senator Reed's office, the day becomes a learning

experience for the senator as well. According to the senator's office, this is one of the few times officials have the opportunity to discuss the concerns of business professionals in this manner. The business people voice their concerns on issues they believe are highest priority and point out where they need guidance. These issues are then brought to the senator's attention for him to address and take to the next level.

They address very timely topics that include legislation being considered by Congress, administration plans and how politics affect business leaders in Rhode Island. Media and consulting firms are also often invited and encouraged to speak to the group and present their views on the

most current and important business trends, giving attendees the opportunity to hear about the same issues from a different perspective.

Preparations for the day's activities take place throughout the summer and invitations are sent out to Rhode Island business leaders from Senator Reed's office in collaboration with the Rhode Island Chamber of Commerce. For more information of Business Day 2006 contact your local Chamber of Commerce.

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U p c o m i n g E v e n t s

JANUARY 31, 2006

CPAs, Bankers, Attorneys Networking Reception

Providence Marriott at 1 Orms Street. Stroll through Rhode Island's historic landscape, starting at the Providence Marriott, with your fellow colleagues, bankers and attorneys.

"WHAT COUNTS" TELEVISION PROGRAM

Every Friday night on Rhode Island Cable Channel 13 at 8:30 p.m. find out about the latest news and trends in the accounting profession and the state's economic status. Topics for the upcoming months include:

- Financial Aid Update
- Update on RISCPA/RIPEC Tax Study
- Out of Control Public Debt
- Film Making in Rhode Island

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One-on-One with Gustave C. Coté

Gustave C. Coté, the Centennial recipient of the RISCPA Distinguished Service in Education Award, has had an extremely successful career in the fields of accounting and education in the state of Rhode Island. Named Professor Emeritus of Business Administration at Providence College upon retiring in 1990, Gus achieved many accolades in his 25 years with the school. He was chairman the Department of Business Administration, and was honored with the Outstanding Educator Award and Providence College Faculty Award in 1978 and 1989.

Gus served on the board of directors of RISCPA prior to serving his term as president in 1982. He also chaired the New England Graduate Accounting Conference and served 10 years on the Advisory Committee for the Rhode Island Department of Business Regulation before attaining his lifetime membership in RISCPA in 1995.

The RISCPA Distinguished Service in Education Award is given to an accounting educator at a post-secondary educational institution, distinguished for excellence in the classroom, a leader in the profession, and interested in shaping an individual's future in the accounting profession.

What Counts: What does it mean to you to have made such an impression on the field of education AND accounting? Is there a specific aspect of this award that you are particularly proud of?

Gus Cote: I am very humbled by the whole operation—there is a great group of educators in the state of Rhode Island and to have been chosen for this award, I am very honored. I am most proud of the fact that I was selected for Distinguished Service in Education—an area that I have always cherished. Having never been trained as an educator, I am extremely delighted to have had the opportunity to make a difference in the state of

Rhode Island. I have always thought of myself primarily as an educator and to be recognized by RISCPA, I am very humbled.

WC: What is your background in accounting?

GC: Coming out of the service in World War II, I wasn't sure what I wanted to do with myself, but decided to take advantage of the GI Bill. I got my bachelor of science degree at LaSalle College in Philadelphia and went on to get my master's degree from Wharton. I was offered a job at Lybrand, Ross Brothers, and Montgomery in Boston – which has merged several times to become what is now Price Waterhouse Coopers – and worked there for three years before attaining my CPA status.

WC: How did you get into the field of education?

GC: Well, after three years of public accounting, I wasn't happy with where I was and knew I wanted to do something else with my life. I had always been attracted to the field of education and when I was approached by Providence College to teach accounting in Business Administration, I jumped at the opportunity. I went on to teach for 25 years. The rest is history.

WC: What do you think are the most important attributes that an accountant must possess to be successful in today's accounting world? What attributes did you stress during your time as a professor at Providence College?

GC: I have always stressed to my students that a professional, no matter line of work he or she is in, must have a passion for their work. Without that passion, they cannot reach their full potential – especially in the field of accounting.

I also stressed interpersonal skills. It is imperative that you are able to get along with others and that you can express yourself thoroughly. It is an



Gustave C. Coté

accountant's job to communicate the necessary financial and economic information to decision makers. If you cannot express yourself properly, these decision makers are at a disadvantage and they are not getting what they paid you for.

WC: How has the field of accounting changed since you last taught class?

GC: With all the scandals that have gone on, the field of accounting has really tightened up. The public has kept a more watchful eye on accountants and there are a lot more regulations and controls. In the past, accountants had a more lax attitude towards protecting the public interest, but with these regulations and tightened controls, the field of accounting has overcome a lot of negatives. It used to be that money was placed before ethics, but for the most part I believe this has changed.

Another important catalyst in this change towards a more respectable perception of the profession is the introduction of the Continuing Professional Education (CPE) Requirements. States now require that in addition to getting their certificate, CPAs need to take certain courses throughout the year to stay up to date on the issues

involving accounting. Many of these courses stress moral ethics and inform accounts about current-event issues such as corporate fraud or scams.

WC: What role do you think accounting should play in an undergraduate education?

GC: While I believe it should be left up to the individual, a basic course in accounting would be advantageous to anybody. While many colleges have accounting requirements for their business students, I believe that students of any discipline would benefit by being introduced to the principles of accounting.

“Without passion, a person cannot reach their full potential – especially in the field of accounting.”

WC: Are you still active in accounting now that you have retired from teaching?

GC: I am no longer compensated monetarily for my work in accounting, but I work with a wonderful program here in Florida by the name of VITA – Volunteer Income Tax Assistance. The program offers free tax help to those who need it most throughout the country, for example: low-income families, individuals with disabilities, or senior citizens. I volunteer my time and knowledge to helping these people prepare their taxes and ensuring that they claim all credits and refunds for which they qualify.

WC: What do you do in your free time now that you are retired?

GC: I really enjoy traveling and keeping up with the area. I don't watch much television, but I do quite a bit of reading now that I have all this free time. My children were my students, and I enjoy spending time with my wife of 60 years.

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Professional News

Financial Literacy Program Launched Locally

With 43 percent of American families spending more than they earn each year, and the average household credit card debt exceeding \$8000, the nationally-endorsed Financial Literacy Program is well timed. The program launched by the American Institute of Certified Public Accounts (AICPA), called *360 Degrees of Financial Literacy*, is supported by state CPA societies and encourages CPAs to take the lead in improving the financial understanding and educating the public, from students to seniors, on financial matters that apply to them specifically.

This national financial crisis transcends all ages, affecting young and older people alike. CPAs in communities across the country have embraced the program and participate through a variety of community outreach efforts, including presentations to students and helping members of the community deal with financial burdens following natural disasters.

The Rhode Island Society of CPAs has implemented the program in our state and devoted a segment of the television program *What Counts* to the topic. More importantly, the Financial Planning Committee dedicated to this task has focused its ongoing outreach efforts where they believe they'll have the most impact. Given that it's difficult to compete for a person's time, especially during evening hours when after-school or family activities take precedence, they're turning their attention to captive audiences to maximize attendance for those volunteers who are dedicating their own time and

resources to help address financial issues that people face during major life stages.

In particular, the audiences they're initially targeting are students, low income households and local companies.

In local high schools, CPAs are addressing seniors to talk about financial matters before they enter into the working world

or go off to college. According to Jerry Dorfman, CPA and chair of RISCPA's Personal Financial Planning Committee, presenters are learning that similar programming is available to students, but it competes with other programs and is not something they gravitate to. By elevating the importance of financial literacy within the schools, RISCPA hopes to elevate the importance of financial matters in individuals. Similarly, college freshman are a prime audience. Facing budgets, credit card offers and paying bills for the first time on their own, financial difficulties can take hold quickly and disrupt important school work.

The Committee was also approached by YWCA to present on a variety of topics to its members and neighbors, including predator lending, where people are at risk for high interest rates in return for up front tax return money. Budgeting expenses is also a topic of interest and will be crucial during the winter months this year as energy and heating costs continue to escalate, as evidenced by the 17 percent increase awarded to New England Gas in October. The YWCA promotes the events and also provides a translator for members who speak Spanish.

Presentations are also being made to employees for a variety of companies. For this audience, the focus is largely on financial literacy matters such as retirement savings as well as budgeting.

"We're seeing more often than not that even when companies are matching funds for certain retirement plans, employees aren't participating," said Dorfman. "Young people are not taking advantage of retirement plans like they should be."

Dorfman feels that poor budgeting is part of the reason for this. People feel that they need all the money they earn in each paycheck to cover their expenses. Dorfman says that looking at discretionary spending to see where cuts can be made would enable employees to save for their futures.

Financial literacy is a concept that won't be learned in one presentation. Participants are encouraged to practice what they've learned using tools that are offered in the sessions. In addition, the AICPA offers a consumer website, www.360financialliteracy.org, where users can find a host of information on topics suited to their stage of life. The site addresses situations such as starting a new job, experiencing a life crisis, or retiring. Each life stage contains articles, financial planning, and assessment tools including budgeting worksheets and frequently asked questions.

Other consumer resources include: the 360 Degrees of Financial Literacy for Women, a program to educate and empower women to take control of their personal finances and achieve greater financial well-being; a National

FINANCIAL LITERACY on back cover

QUONSET
from page 1

managed athletic facilities, golf courses, beaches, parks, athletic fields and scenic bike paths while continuing to increase its commercial and industrial based tenants at a steady pace. The Park also hopes to capitalize on its waterfront property by developing the land to further accommodate water-related and water-dependent industrial and commercial tenants.

Last year, the state of Rhode Island passed a \$48 million bond to implement the master plan. According to Jeff Grout, executive director of the Quonset Development Corporation, the goal is to leverage the public's funds with private investment and to spend our money to create and link pad ready sites.

"Quonset has a master plan which reflects the creation of a fully serviced business park. It took two years to develop this plan, which reflects the long term vision for Quonset," said Grout. "I feel the master plan is completely workable and we are now in the implementation phase."

The Quonset Development strategy for private investment stems from the implementation of its Capital Improvement Plan, which calls for improving the existing railway system and roadway system while demolishing or renovating unsightly buildings to improve overall aesthetics throughout the park. It will also provide deep water and air access and utilities. By allowing private investors to see the dedication that the state has in ensuring that this project comes to fruition, RIEDC hopes that it will ease some of the skepticism of the private sector while alleviating some of the state's financial burden.

Grout said that it will take approximately \$100 to \$150 million of private investment to retire the \$48 million bond. He is confident that this will occur due to the master plan and the changes implemented thus far. The changes he refers to

include: a) Good leadership and positive relationships with political leaders; b) Good governance. The Board for Quonset and EDC used to operate as one governing body. They are now two distinct boards that have their own purview. c) A qualified staff with commercial and developmental real estate experience. d) A shared vision which improved the process so private communities could understand the rules. e) Marketing skills developed to

explore the strengths, weaknesses, opportunities and threats to the Quonset Development Project.

RIEDC views the monies spent on the Quonset-Davisville Port and Commerce Park development as an invaluable investment in the state's future and plans to create upwards of 11,900 more jobs by the year 2021 on the 678 acres of developable land.

The Quonset Development Corporation is a real estate development and management subsidiary of the Rhode Island Economic Development Corporation, which was created to redevelop a 3,047-acre military complex into a premiere industrial and technology park located in the heart of Rhode Island. Initially used as a military base throughout World War II and up to the end of the Vietnam War, the large plot of land situated in North Kingston was de-commissioned by the U.S. Military with Quonset Base operations being closed down in 1973. By 1974 the RI Department of Economic Development took on the task of creating an economic development project at the former Naval base with the intent to improve the Rhode Island economy, and in the ensuing years



has created over 6,250 jobs and brought over 115 tenants to the new Quonset-Davisville Port and Commerce Park.

Given that it was once a military base, the land boasts many amenities such as an on-site airport, as well as impressive railway and maritime access. There has been much discussion regarding the lack of highway access to support the influx of traffic expected with further expansion, and as a result plans to implement an extensive hierarchical roadway system have been underway. Quonset Development Corporation sees the Park's accessibility as an extremely valuable resource to its tenants and plans to further improve and renovate access to the Park as it expands.



Rhode Island Society of CPAs Centennial Celebration



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The 100th anniversary celebration of the Rhode Island Society of CPAs has been marked by several well-attended, signature events including the annual dinner, golf outing and black tie gala. We'd like to thank all who attended, and made this special year one to remember.



SMALL BUSINESS FRAUD
from page 1

Acknowledging areas for potential abuse

CPAs and legal advisors are the first line of defense in helping a small business owner identify areas for weakness in their particular organization. CPAs are valuable consultants to their clients in these situations and can provide a number of fraud prevention services.

Two key areas of potential fraud that are often overlooked are hiring procedures and lack of segregation of duties.

Steve Ursillo, Jr., is a CPA and the director of technical and assurance services for Sparrow, Johnson & Ursillo, and says that one of the biggest issues that small companies face is the reliance on one or two individuals to manage several incompatible tasks. Due to lack of resources, owners will consolidate duties that are conflicting such as having the same person that balances the books, make deposits or sign checks. Simply separating duties can make a big difference in preventing the opportunity for fraud abuse.



Implementing internal controls

While some of the methods for preventing fraud seem to be common sense, combined with more advanced processes, they help protect a small business from fraudulent activity.

Hiring employees who are competent and trustworthy is first and foremost. By conducting background checks, checking past employment, running a civil history (fraud-related lawsuits), education, and references, an employer can learn a lot about the character of potential employees before hiring them. The ACFE study shows that seven percent of employees have a history of workplace theft or fraud, making hiring procedures a priority for fraud prevention. Special consideration should be given to those that are handling inventory or money.

Also, conduct drug screenings as often fraud and substance abuse can go hand in hand. The need to finance a drug addiction can influence an employee to do things he or she wouldn't ordinarily do, such as embezzle funds from an employer. While a substance abuse problem doesn't automatically indicate fraudulent behavior, it's a warning sign that shouldn't be ignored.

Employee education lets the staff know that an owner is aware of fraud methods and watching for questionable activities.

Employees will likely be aware that something is amiss before anyone else. Training should cover why fraud occurs, how to recognize it and what to do. Onsite training provided by CPAs can take the form of presentations, informal sessions or computer-based education. Employees should also be provided with a

third party hotline service to anonymously report incidents of fraud within the company. Many employees are hesitant to report incidents of fraud because they are afraid of losing their jobs or being alienated by their peers. Anonymous reporting alerts owners to potential problems and limits the ability of offenders to intimidate coworkers into not reporting them.

Another component of education is a simple fraud policy. Making employees aware of the types of fraud that can occur, and actions the company will take if it does, serves as an essential deterrent.

A system of internal checks and balances spreads a business's financial duties among several employees, eliminating the possibility that a single employee can embezzle funds undetected. As mentioned earlier, it's especially important to make sure that the same employee does not authorize, process, and record financial transactions within the business. CPAs can assist in reviewing the current system and making recommendations for improvements.

One of the best ways to detect and deter fraud is to conduct periodic audits. According to the ACFE study, losses to companies that conducted audits were about one-third less than losses at companies who didn't. An owner should notify employees that the company's books will be subject to regularly scheduled internal audits by the owner as well as unscheduled audits throughout the year. The owner should also engage a CPA to audit and attest to the credibility of the financial information presented.

Watching for suspicious activity is always a small business owner's responsibility. For example, an employee who never takes a day off work is a red flag for fraud. Fraudulent employees fear that someone will notice something isn't quite right and their activities will be revealed. Implement a policy that requires all employees to annually take at least one week mandatory vacation.

The most effective prevention measure for fraud is a working culture that values honesty and integrity. The small business owner needs to model an attitude of compliance to the company's policies and procedures so that employees take notice.

Technology's role in fraud and fraud prevention

Computers and computer technology both serve as a means for fraudulent acts and a way to prevent them from happening. Small businesses are at an increased risk for computer-based crimes, especially those which involve using company computers to operate their own businesses.

Other ways in which employees use computers to their advantage include stealing their employer's technology, customer lists, or intelligence.

Establishing adequate security measures is key to protecting a company's information and assets.

Ursillo says that while the cost of implementing proper infrastructure that could circumvent unethical activity is sometimes a deterrent for small business owners, it's vital to internal security and access controls. Once suspected, it's important that the owner identify where he/she feels the violation occurred.

"Fraud can go on for a long period of time before an owner becomes aware of the situation," said Ursillo. "It's like finding a needle in a haystack sometimes. That's why it's essential for a business owner to identify their 'symptoms' or give a good idea of where they think they were vulnerable in this instance."

Some general steps to reduce fraud risk include: using a difficult password with alphanumeric digits, maintaining an update virus protection program, installing updated patches, using filtering techniques, and using proper firewalls.

Ursillo also manages situations of major fraud violations. In some instances, the company conducts database analysis whereby transactions and master files are compared to vendor files to filter out any possibility of corruption. Automated scripts are set up to prevent these types of situations.

For technical breaches, Ursillo investigates the level of the breach, reviews the integrity of the stem and helps preserve the evidence to turn over for legal action. This is a crucial step in ensuring



that a company that is the victim of a system breach has the proper evidence.

Small businesses account for 43 percent of all sales in the U.S. and generate 51 percent of the gross domestic product. Being aware of the potential for fraud, being proactive, and seeking help from professionals who handle fraud prevention controls is key to protecting a business. Implementing and enforcing proper guidelines and security procedures will safeguard a business from unethical practices.

Ten Ways Small Business Owners Can Prevent Fraud

1. Hire a CPA to examine the books
2. Have a written code of ethics
3. Set a good example
4. Have reasonable expectations
5. Treat employees well
6. Restrict bank account access
7. Perform regular bank reconciliations
8. Adequately secure inventory and supplies
9. Adequately prescreen employee applicants
10. Give employees a way to report fraud

Source: *Journal of Accountancy*

