

 The Institute of Internal Auditors	<b>The Institute of Internal Auditors</b> <b>LONG ISLAND CHAPTER</b> <b>NEWSLETTER</b>	April 2012 Volume 12 Issue 4
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## President's End of Year Message:

I started the year with the following quote ringing in my ears, "Be happy when time passes quickly as that signifies that you are well and things are going well for you." I have to say that the year has truly gone by quicker than ever and I am happy to say that it has been the experience of a lifetime. I thank you for giving me the opportunity to serve as your Long Island Chapter President and I hope that each member is able to say that you too have gotten a lot out of the seminars that you have attended over this past year. We have one seminar left to the year and that is the Annual Conference. This year's conference is centered on the future of internal audit and with a guest speaker such as the futurist Mr. Marks we are surely to leave an impression on you if you attend. We are also hosting a reception right after which will be an excellent networking opportunity. To end the year we also have the Gala Diner which will be at TASTE 99 Restaurant overlooking the World Famous Bethpage Black Golf Course.

As I approach the end of my term, I want to share a few thoughts about the progress of our Long Island Chapter. We have been able to maintain the high quality of seminars that we have become accustomed to and to reach towards new speakers and try new things. Attendance at the seminars has seen a steady increase and our membership has had a positive trend and has broken the ceiling of 400 members. Our professionalism has continued and the venue has aided in providing a convenient and professional environment as well as making participation from traveling speakers more easily attainable. The Marriott Hotel has been a constant that has allowed us flexibility not only in our seminars but our Board meetings as well; not to mention the excellence of a central location for Nassau and Suffolk commuters. As they say, "Location, location, location."

Forward looking to next year, I look forward to participating on the Board as your Past President elect. I will look to provide guidance and share my experiences with the incoming President. I also am looking forward to expanding our Committees and to formalize additional participation from new members so that we have all those interested and able to fully share in the experience of the Chapter. Look for news and advertisement of upcoming Chapter Committees next year that you can volunteer for.

What we can do is look to the future with clear confidence as our Chapter is healthy and getting stronger by the day. Thanks for all of your participation and support.

Continue to check our website for further details on future events, news, job postings and other audit resources. As in the past, our primary method of communication is through the website and e-mail. If you have changed jobs, moved, or have profile changes, please update your information by visiting the IIA at [www.theiia.org](http://www.theiia.org) or calling the IIA's Customer Service at 407-937-1111.

Please continue to provide your support by attending meetings, answering surveys or volunteering your services. If you would like to volunteer, please don't hesitate to contact me or any of other Officers or Members of the Board of Governors. This is YOUR Chapter and your ideas, comments and suggestions are welcomed.

I would like to thank the Board for their guidance and most of all my fellow officers for their support this past year. I look forward to seeing you at upcoming events. Let's help our Network grow!

**Alice Seoylemezian, CIA, CCSA**  
Long Island Chapter President 2011-2012  
[a.seoylemezian@morganstanley.com](mailto:a.seoylemezian@morganstanley.com)







**IMPORTANT CHANGES FOR CPE REQUIREMENTS and REPORTING CERTIFICATION PROCESS NOW IN EFFECT**

A change of the Continuing Professional Education (CPE) requirements and the process for reporting CPE's to maintain an IIA professional designation ( e.g., CIA, CCSA, CFSA, CRMA, etc. ) has gone into effect on January 1, 2012. Most notable departure from current reporting practice IS:

- Reporting of CPE's will be required **EVERY** year – not every other year as currently practiced
- Reporting date is changed to **DECEMBER 31 – NOT MAY 31 AS CURRENTLY PRACTICED**

Chapter members holding a professional designation are urged to become familiar with changes as soon as possible. A summary of these changes is reprinted from last newsletter in table below:

Summary of changes <b>EFFECTIVE SINCE JANUARY 1, 2012</b> to the Reporting Period, CPE Requirements and Reporting Process for Internal Audit Professionals holding one or more IIA designations.	
ITEM	EFFECTIVE JANUARY 1, 2012
REPORTING PERIOD	Reporting will now be done annually for all IIA certified individuals. All candidates will be required to report every year versus every other year, which was done previously.
REPORTING DATE	The reporting date is changing from May 31 to December 31.
NUMBER OF HOURS REQUIRED FOR CIA	<ul style="list-style-type: none"> <li>• 40 hours per year – if practicing</li> <li>• 20 hours per year – if non practicing</li> <li>• 0 hours per year – if retired</li> </ul>
NUMBER OF CPE HOURS REQUIRED FOR CCSA, CFSA, CGAP, CRMA	<ul style="list-style-type: none"> <li>• 20 hours per year – if practicing</li> <li>• 10 hours per year – if non practicing</li> <li>• 0 hours per year – if retired</li> </ul>
SPECIALTY CERTIFICATION CPE REQUIREMENTS	25 per cent of CPE hours earned must be in the specialty area of expertise
REQUIRED ATTESTATIONS AT TIME OF CPE REPORTING SUBMISSION	<ul style="list-style-type: none"> <li>• To practice in accordance with the IIA's International Professional Practices Framework</li> <li>• To abide by the IIA code of ethics</li> <li>• To not bring the IIA into disrepute</li> <li>• To have no criminal convictions since the last reporting period</li> </ul>
FAILURE TO REPORT CPE	Failure to report CPE will result in an individual's certification status being moved to INACTIVE. The designation can no longer be used until the individual's certification status is reinstated.
REINSTATEMENT POLICY	If an individual's certification status remains INACTIVE for more than 12 months, to reinstate, the candidate will need to report 80 hours of CPE and pay a reinstatement fee of US \$100 for IIA members, or US \$250 (for non-members).

For what these changes for CPE requirements and CPE reporting certification process mean for you please refer to the summary table on the following page,







# **FRAUD STUFF**

The Long Island IIA Chapter's own Ernest Patrick Smith, CPA/CFF, CFE, CVA – (Senior Partner-Nawrocki Smith, LLP-Certified Public Accountants and Business Consultants) contributes on an occasional basis brief articles in his 'FRAUD STUFF' section of the Chapter Newsletter. Ernie has taken the time to summarize a 'seasonal' fraud for this time of year – Tax Fraud - for the interest, and hopefully not for the instruction, of our Chapter readers.

Provided below is a summary of types, prevalence and selected scenarios of Tax Fraud written in the inimitable tone of Ernie's FRAUD STUFF.

## **TAX FRAUD: TYPES, PREVALENCE & SELECTED SCENARIOS**

Ahh...the onset of April; the sweet smell of Spring, flowers blooming and the subtle reminder as we approach April 17<sup>th</sup> (the tax filing for 2011 Individual Income Tax Returns) of investigations in the past where tax fraud is an issue. I have been investigating all types of fraudulent situations for nearly twenty-five (25) years and nothing is more prevalent today than the presence of tax fraud. Below, are some statistics that we were able to develop from the IRS (www.irs.gov) website combined with some other research we performed to give you some fresh perspective:

<b>FY 2011 (1)</b>	<b>General Fraud Investigations</b>	<b>Abusive Return Preparers</b>	<b>Abusive Tax Schemes</b>	<b>Bankruptcy Fraud</b>	<b>Corporate Fraud</b>	<b>Employment Tax Evasion</b>
<b>Investigations Initiated</b>	1,834	371	166	25	110	153
<b>Prosecution Recommendations</b>	1,214	233	140	16	79	110
<b>Indictments/Information</b>	1,114	176	86	9	81	85
<b>Sentenced</b>	864	163	95	23	82	79
<b>Incarceration Rate</b>	79.30%	87.10%	76.80%	82.60%	81.70%	81.00%
<b>Avg. Months to Serve</b>	29	25	30	32	51	24

<b><u>Category</u></b>	<b><u>Tax Returns Filed</u></b>
Individual (2)	140,494,127
Business (3)	31,607,710
<b>Total</b>	<b><u>172,101,837</u></b>

### **Notes**

(1) Statistical data derived from the Criminal Investigation Management Information System published by the IRS for calendar year 2011

(2) Statistical Data derived from the Individual Statistical Tables by Size of Adjusted Gross Income published by the IRS for calendar year 2009

(3) Statistical Data derived from the Integrated Business Data published by the IRS for calendar year 2008

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## **FRAUD STUFF**    - - -    *(continued from previous page)*

As you can see from the above-captioned statistics that for the number of tax returns filed there is clearly little or no effort being made to enforce compliance with the existing rules and laws surrounding our tax filing and reporting systems. One of my very good friends, who is the In-House Head of Compliance and Fraud at a major US Bank's comment to this is as follows:

### **“you know the bad guys know all about this”**

As the filing date for federal income tax approaches, I reflect on the many cases my firm has investigated for the insurance industry. I have personally observed numerous individuals who have committed some of the most egregious tax frauds from unreported income to fraudulent expenses and everything in between. The stunning realization is that the vast majority of these individuals are never audited as the Internal Revenue Service (IRS) just does not have the proper resources to identify and investigate the pervasive number of potentially fraudulent tax filings.

I can recall one of the more recent cases regarding tax fraud which was in the context of an insurance investigation. The subject of our investigation was located on the west coast of the United States, lived in one state and worked in another state. The subject claimed that he was the part owner of a private airplane and deducted hundreds of thousands of dollars on his income tax return in connection with the repair and maintenance of the airplane in addition to the fuel. After an extensive analysis of his flight logs and expenses, we observed that the airplane was not used for business purposes, the subject flew commercial when traveling for business and the subject was not even listed as an owner on the title of the airplane!

During our investigation, we also identified that the subject deducted hundreds of thousands of dollars for repairs and maintenance to his “home office” and even purchased a self-playing piano for his “waiting room” for \$50,000. During our interview of the subject at his “home office”, we observed that his “waiting room” was what the rest of us would call a foyer and his “conference room” is commonly referred to by most as a dining room. I bet most of you readers can take a guess at what the “parking lot” was - you got it, his driveway!

However, my favorite fraudulent expense regarding this audit was the security expense. Although this expense was significantly lower than the airplane and “home office” the explanation was priceless. After review of supporting documentation, we identified that the security expense included the purchase price of the individuals family pet, the pets food and veterinarian bills. The subject indicated that it was imperative to have this vicious dog to safeguard his confidential records at his “home office”. What is ironic was that this “vicious” dog was an extremely friendly puppy that licked my associate throughout the interview. Additionally, to further document the subject's absurd representations, through an analysis of the expenses, we identified that the important records that this “vicious” puppy was purportedly safeguarding were actually being kept in a storage facility.

I am enclosing for your reading pleasure a reference to an article that appeared recently in the April 8<sup>th</sup> weekend edition of the NY Times Sunday Magazine that is both sobering and timely. The authors are part of NPR's successful podcast and blog “Planet Money” and is appropriately titled “What's the Easiest Way to Cheat on Your Taxes”.

<http://www.nytimes.com/2012/04/08/magazine/whats-the-easiest-way-to-cheat-on-your-taxes.html?scp=3&sq=ny>

In closing, I offer you these final comments; tax fraud is alive and well here in the United States and will continue as long as we allow it to flourish. The talking heads will continue to ponder the why's and wherefores as to who should pay and how much. The undersigned offers two suggestions to fix our system; tax simplification and good old fashioned, common sense enforcement of the rules and tax law.





# About Our Speakers – Background of Distinguished Speakers for April 27<sup>th</sup> Seminar on: The FUTURE of INTERNAL AUDITING –

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**( Please see page 2 & 3 for registration details,  
conference schedule and location)**

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**Norman Marks**, CPA, CRMA is Vice President, Evangelist at SAP, where he focuses on thought leadership around “better run business”. He focuses on governance, risk management, internal audit, compliance, enterprise performance, and business intelligence.

Prior to Business Objects’ acquisition by SAP in 2008, he was their Vice President of Internal Audit responsible for internal auditing, risk management, the Sarbanes-Oxley Section 404 (SOX) program, and license compliance.

Norman has been chief audit executive of major global corporations since 1990, and is a globally-recognized thought leader in the professions of internal auditing and risk management. In addition, he has served as chief risk officer, compliance officer, and ethics officer, and managed what would now be called the IT governance function (information security, contingency planning, methodologies, standards, etc.)

He is the author of two of the most downloaded Institute of Internal Auditors (IIA) products: a guide for management to Sarbanes-Oxley Section 404 and the GAIT methodology for defining the scope for SOX of IT general controls. Norman is the editor of the Corporate Governance column in the IIA’s Internal Auditor magazine, a member of the review boards of several audit and risk management publications (including the magazines of ISACA and the IIA), a frequent speaker internationally, the author of several award-winning articles, and a prolific blogger about better run business (consistently rating as one of the top global influencers in social media on the topics of GRC, internal audit, risk management, and governance).

Norman has been profiled in publications of the AICPA and the IIA as an innovative and successful internal auditing leader. He has also been honored as a Fellow of the Open Compliance and Ethics Group for his GRC thought leadership, and as an Honorary Fellow of the Institute of Risk Management for his contributions to risk management.

Norman can be found at:

- [Marks on Governance](#)
- [Norman Marks on Governance, Risk Management, and Internal Audit](#)  
<http://twitter.com/normanmarks>

**Cal Slemp** is a Managing Director with Protiviti, currently leading Protiviti's security and privacy solutions consulting business globally. He is responsible for both developing offerings and the quality of their delivery in this area. This specifically includes directing our work in privacy, security, and identity management design and implementation. Cal has provided support to clients in many new areas of interest including data privacy, data-centric data management, the creation and interoperability of trusted identities, and security in cloud computing and other new computing environments. Cal has worked with clients of all sizes in a wide variety of industries providing a broad array of information security and risk management services. His expertise includes developing and evaluating comprehensive information security strategies and programs, data privacy and compliance program design and assessments, incident response planning and execution, and security architecture services.

Prior to joining Protiviti, Cal was with IBM Corporation for 30 years in a variety of executive and management positions. He led IBM's global Security and Privacy Services team from its creation in 1998 until 2006.

**Russell Safirstein** is a CPA and Managing Partner for Paracon. He has CPA, has over 20 years experience as both a buyer and deliverer of service. Mr. Safirstein co-founded Paracon Group and leads the firm's technical delivery practice and is the company's CFO. As a Senior Executive with a diversified financial background, Mr. Safirstein has been the Chief Audit Executive and Executive for a number of multi-billion dollar diversified organizations within the insurance, banking and capital markets industries. He is a highly regarded and sought after speaker on leading audit and risk practices and mentors several prominent Chief Audit Executives throughout the industry. Strategically focused, Mr. Safirstein has built and sustained many productive relationships across multiple business and industry lines that have proven to be instrumental in Paracon's early growth and prosperity. He has established himself to be a true leader, from his promotion to Chief Auditor at Roslyn Savings Bank at 28 years old through helping to lead Paracon today.

Prior to founding Paracon Group, Mr. Safirstein was the General Auditor for Liquidnet, the #1 institutional equities marketplace. As General Auditor, he created a robust and innovative Internal Audit function and partnered with the Chief Risk Officer, to develop an integrated and converged Enterprise Risk Model that delivered results and savings to the Audit Committee, management and internal audit. For nearly five years at MetLife, he was able to collaboratively transform the internal audit organization through some innovative solutions. A Talent Transit System allowed internal audit veterans to hone their skills in other parts of the organization, while new recruits and internal transfers reinvigorated the department with fresh ideas and expertise. He helped to define the MetLife Project Management Office (PMO) process for their Travelers Life Insurance acquisition and used this methodology on subsequent projects relating to off shoring certain business processes to India and implementing new accounting regulations relating to fair value.

Prior to MetLife, Mr. Safirstein was Senior Vice President & Chief Auditor for Roslyn Savings Bank, a large regional savings bank in the New York metropolitan area, for nearly ten years. As a member of the Bank's Executive Leadership group, he gained valuable experience in consumer and commercial banking, finance, mergers & acquisitions, IPOs, regulatory compliance and other financial service areas. At the time of his promotion he was the youngest Chief Auditor in NYS. Mr. Safirstein started his career with KPMG (Peat Marwick) in their Financial Institution practice after graduating from Adelphi University with BBA in Accounting.

**Joe Glickis** a Director at Paracon. He is the inventor of the Expertool Platform, and leads Paracon's Knowledge Engineering practice. He is a multi-disciplinary methodologist who has delivered innovations for enterprise, government and academia since 1996, including five of the world's largest financial institutions. Achievements include a knowledge engineering project at Pfizer that won the company's top innovation award for the sponsor, and a patentable process management solution at JPM Chase.

He is active as a thought leader in various fields, currently leading an Ontology initiative and serving on a standards consortium for Nanoinformatics.org, developing knowledge engineering methodologies for multidisciplinary research. He is also a member of the Software & Business Methods standing committee of the Intellectual Property Owners Association (IPO.org), where he led a project to develop a methodology for identifying innovation in applications for business method patents. The methodology was accepted by IPO, which includes the world's largest technology companies, delivered to members as a CLE program led by Joe, and was recommended by the IPO board to the US Patent Office.

**Thomas Frey** is the Executive Director and Senior Futurist at the DaVinci Institute, and is currently Google's top-rated futurist speaker.

As part of the celebrity speaking circuit, Tom continually pushes the envelope of understanding, creating fascinating images of the world to come. His keynote talks on futurist topics have captivated people ranging from high level government officials, to executives in Fortune 500 companies, to leaders around the world.

Because of his work inspiring inventors and other revolutionary thinkers, the Boulder Daily Camera has referred to him as the "Father of Invention". The Denver Post and Seattle Post Intelligencer have referred to him as the "Dean of Futurists".

Before launching the DaVinci Institute, Tom spent 15 years at IBM as an engineer and designer where he received over 270 awards, more than any other IBM engineer. He is also a past member of the Triple Nine Society (High I.Q. society over 99.9 percentile).

Tom has been a columnist for the Rocky Mountain News, ColoradoBiz Magazine, the Futurist Magazine, and Morning Calm, the in-flight magazine for Korean Airlines. He is also the Editor of two top-rated blogs, the Impact Lab and [FuturistSpeaker.com](http://FuturistSpeaker.com). He was recently named Innovation Editor for THE FUTURIST magazine.

**Clifford Weinstein** is a Director for Robert Half International. He is a 1979 graduate of the State University of New York at Buffalo and holds a BS in Business Administration with an Accounting concentration. Also, Cliff is a Certified Public Accountant and is an active member of the New York State Society of CPAs. Cliff spent the first seven years of his career in Public Accounting specializing in accounting, auditing and tax services for middle market clients. For almost fifteen years, Cliff has been in the staffing and recruiting business specializing in the placement of Accounting and Finance professionals and advising client companies in the Financial Services, Manufacturing, Retail, Internet, Media, Entertainment and the Public Accounting fields with professional staffing solutions. Currently, Cliff is the Director of Permanent Placement Services on Long Island, NY for Robert Half International, Inc. the world's leader in specialized staffing since 1948. Cliff handles permanent placements for all of Long Island as well as the greater New York metropolitan area.

**Gary Jendras**, CIA, CFSA, CBA, CRMA is a Vice President and the Internal Auditor for Bethpage Federal Credit Union. He is responsible for financial, operational and information technology audits, compliance, security, enterprise risk management disaster recovery and business continuity. He previously was the General Auditor of the American Home Mortgage Company, Engagement Manager at Jefferson Wells Inc. and Deputy Auditor at the Dime/Anchor Savings Bank. Gary has been an active member of the Long Island Chapter of the Institute of Internal Auditors for twenty two years and has served as a Board of Governor, President, Vice President, and Secretary of the Chapter. Currently Gary is the Northeast Region District #1 Representative for the Institute of Internal Auditors. Gary also serves as a Board member and Chairperson of the CIA committee for the Long Island Chapter.

**Mark Israel** is the Director of Internal Audit and Oversight for Brookhaven Science Associates, LLC. His responsibilities include overseeing financial system and business operations audits for the Laboratory. He also directs the conduct of independent institutional assessments to assure the adequacy of work performance, promote continuous process improvement, and mitigate potential operational and financial risk. Israel's office serves as an independent resource for conducting these audits and assessments, coordinating outside audit activities, and providing expert information and guidance on effective internal controls and prudent business practices. The Internal Audits are conducted in accordance with the framework of International Standards established by the Institute of Internal Auditors, and satisfies the DOE Office of Inspector General's Cooperative Audit Strategy required under our Prime Contract with the DOE.

A certified public accountant, Israel received a BBA in accounting in 1969 and an MBA in finance in 1978, both from Adelphi University. From 1968 to 1971, he was an accountant at Arthur Andersen & Co. Certified Public Accountants in Manhattan, and from 1971 to 1974, he was a senior financial analyst for American Airlines in Lake Success, NY. He joined Brookhaven Lab in 1974 as a Senior Internal Auditor, advanced to several supervisory auditing positions, and, in 1987, became the Laboratory's Fiscal Officer. He has served as Director of Internal Audit and Oversight since September 2006, except for the nine month period from October 1, 2009 through June 28, 2010, during which he served as the Interim ALD for Finance.

Israel is a member of the New York State Society of Certified Public Accountants, for which he chaired several of the society's tax committees; the American Institute of Certified Public Accountants; The Institute of Internal Auditors; and the Institute of Management Accountants (IMA). He also was the former president of IMA's Long Island - Suffolk Chapter. Israel is also a member of the advisory board of CIAD, the Contractor Internal Audit Directors, a group that serves as liaison between the Laboratory Internal Audit Directors and the DOE Office of Inspector General.

**Lloyd Levy** is the Executive Vice President and Chief Audit Executive, for New York Community Bancorp, Inc. Innovative, results oriented financial, accounting, audit and compliance executive with extensive knowledge of enterprise and operational risk management in the domestic and international financial services industry. He is known for his proven ability to combine technical, analytical, and management skills with a strong commitment to quality and productivity to achieve business objectives and his excellent interpersonal, management and writing skills. Prior experience includes: Freddie Mac, Director, Capital Markets Internal Audit; KPMG, Director responsible for comprehensive business risk assessment, analysis of accounting policies, and financial reporting of banks, broker/dealers, asset managers, and hedge funds; Arthur Andersen; and Audit Management Positions at National Westminster Bank; Donaldson Lufkin & Jenrette; and Dean Witter. Education: New York University Graduate School of Business; Master of Business Administration and Washington University B.A. Degree cum laude in Economics.

**Chris Wright**, from Protiviti’s New York office, is the firm-wide Managing Director of our Finance Remediation and Reporting Compliance group, and the global leader of Protiviti’s IFRS initiatives. Chris is also the Regional Managing Director for Protiviti’s Eastern United States region. He has over twenty years experience serving clients as an external auditor, including 6 years as a partner at two global accounting firms (Arthur Andersen and KPMG), and as an internal auditor and financial reporting risk consultant.

At Protiviti, Chris has provided internal audit out-sourcing and co-sourcing, Sarbanes-Oxley readiness and compliance services, and significant assistance to companies experiencing restatements, regulatory inquiries, stock compensation and other financial investigations and difficulties in implementing new accounting pronouncements, including IFRS and fair value issues. Chris earned his Bachelor of Science degree with a major in Accounting from Franciscan University.

Chris serves on the boards of several charitable, civic, educational and business organizations, including as a member of the board and chairman of the Audit Committee of the Nassau County Interim Finance Authority (NIFA).

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