



INDIANA UNIVERSITY

# **INTERNAL CONTROLS & RISK ASSESSMENT**

**Campus Administrative Training Series  
January 18, 2017**

**Stewart Cobine, CPA**

**Associate Vice President & Chief Audit Officer**



# **Welcome: Lisa Beymer, CIA, CFE**

## **Senior Associate Director**

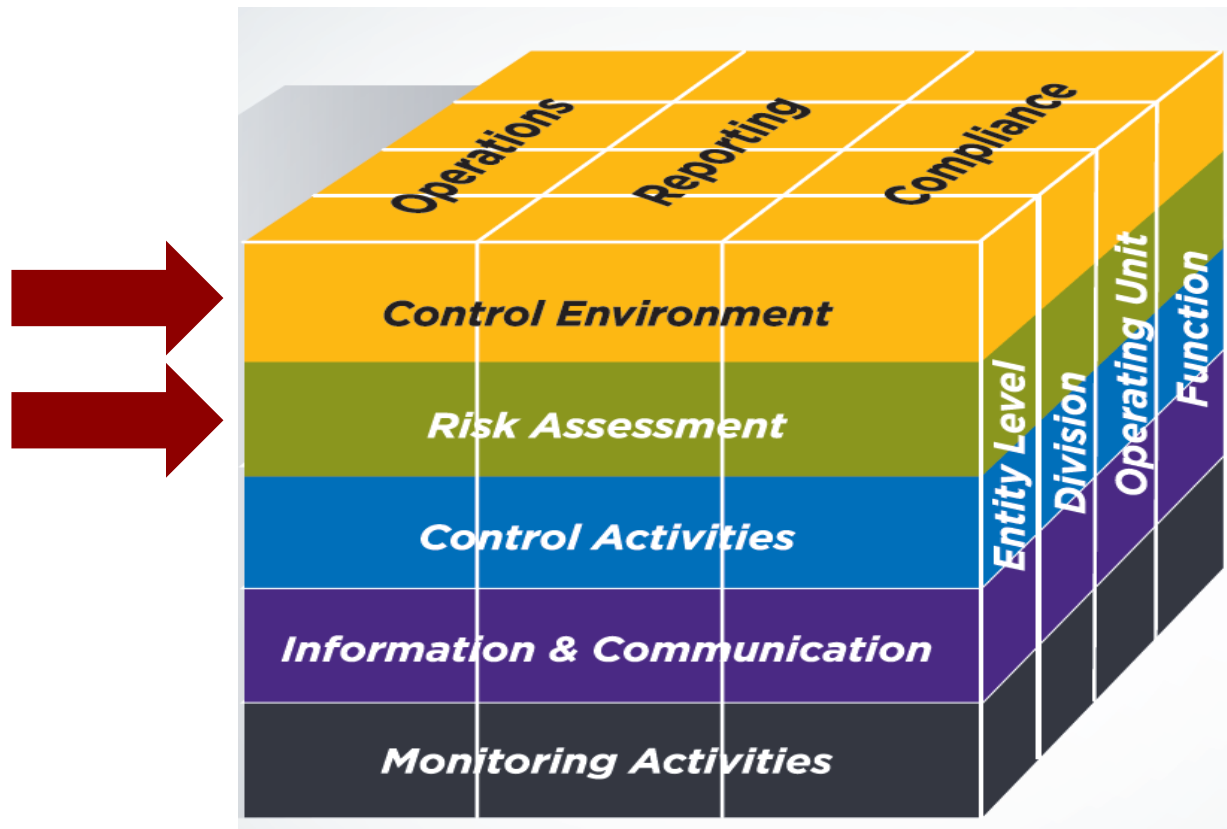
- Operational leadership & support for audit planning, risk assessment, strategic initiatives
- Focus on research, health sciences, fraud/investigations including Ethics Point hotline oversight
- IA systems administration, data analytics, audit management
- Quality assurance, performance metrics, staff development and SME program



# COSO

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations listed below and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence





- Columns represent 3 categories of objectives
- Rows represent the 5 components of internal controls
- Sides represent organizational levels



Why

Do

I

Care?



## Headlines

***“Former University of Louisville Dean of the College of Education and Human Development is Sentenced to More Than 5 Years in prison for misappropriating \$2.3 million from a federal research grant”***

Some faculty members say that the university could have detected Mr. Felner's wrongdoing earlier if administrators had paid attention to faculty and student complaints about his conduct

***“Florida International University Agrees to Settlement to pay the federal government \$11.5 million to settle accusations that a research improperly billed the U.S. Department of Energy for scientists' time, travel, and administration expenses”***

The U.S. Department of Energy found that the university had not properly documented whether faculty members had spent the percentage of time they had promised to spend on research projects financed by the grants



## More Headlines

- *“Ticket Scandal Rocks Kansas – a high ranking member of the University of Kansas athletic department allegedly made more than \$800,000 in a ticket scalping operation”*
- *“Yale University will pay the government \$7.6 million to resolve allegations that it violated the false claims act in its management of research grants awarded over a six-year period”*
- *“New Jersey Medical Dean accused of falsifying budgetary statements to claim more than \$50,000 in bonuses”*
- *“Former Director of Arizona Universities Student Association accused of embezzling nearly \$210,000 from the organization”*
- *“UCLA Professor Indicted for Financial Impropriety – charged with swindling the government and university out of \$1 million by faking research purchases and putting family members on the payroll”*



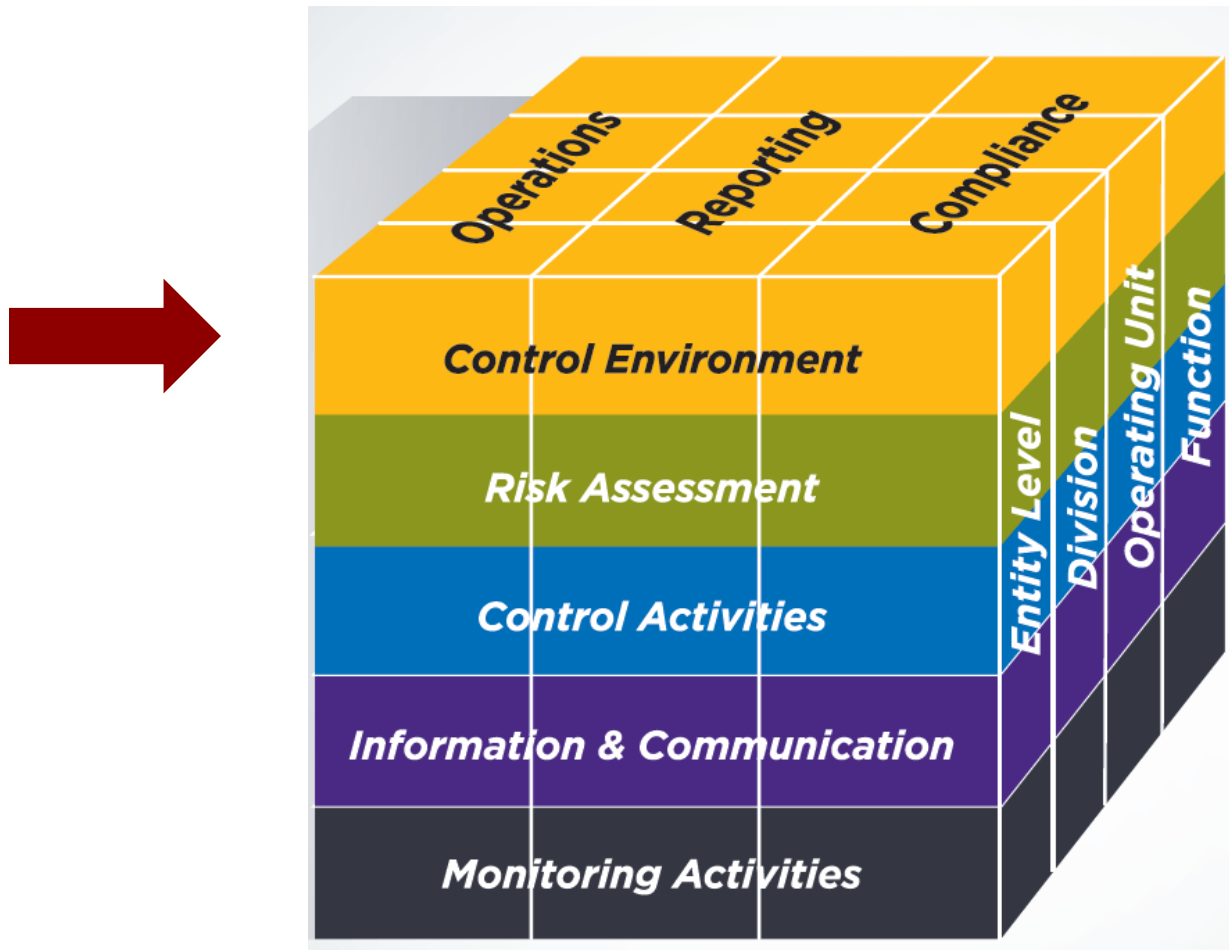
# Headlines Closer to Home

- “More than \$100,000 in parking revenue “lost” in 3 year period for basketball and football”
- “A student hourly employee stole books with a replacement value of \$4,725 and sold these books for \$1,472”
- “The billing manager for the a departmental clinic submitted falsified documents and fraudulently received tax saver benefit reimbursements totaling more than \$10,000”
- Ex-staffer arrested on charges of embezzling more than \$300,000 from the University
- Employee utilizes student organization accounts to embezzle over \$10,000





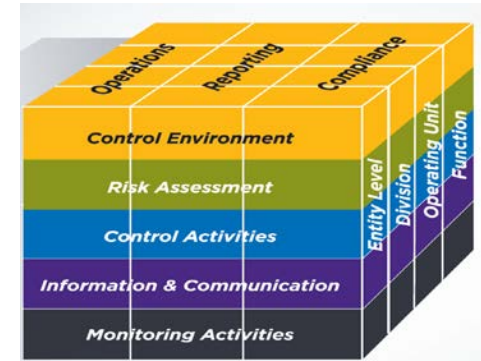
# SO WHERE DO WE START?





# CONTROL ENVIRONMENT

1. Organizational commitment to integrity and ethical values
2. Independent Board that exercises oversight of the I/C environment
3. Management-established structures, reporting lines, and authority/responsibility in pursuit of objectives
4. Demonstrated commitment to attract, develop and retain competent staff in alignment with objectives
5. Hold individuals accountable for their internal control responsibilities





# What are Internal Controls?

- Any processes, practices, or procedures that have been put into place
- To provide reasonable assurance that organizational goals are met
- Or that risks to organizational goals are effectively mitigated



# Who is Responsible for Internal Control?

Everyone has *responsibility* for Internal controls.

- Board of Trustees – mandates them
- Senior Administration – establishes them
- Fiscal Officers – implements and oversees them
- Staff and Faculty – operate with them
- Internal Audit – evaluates & assesses them



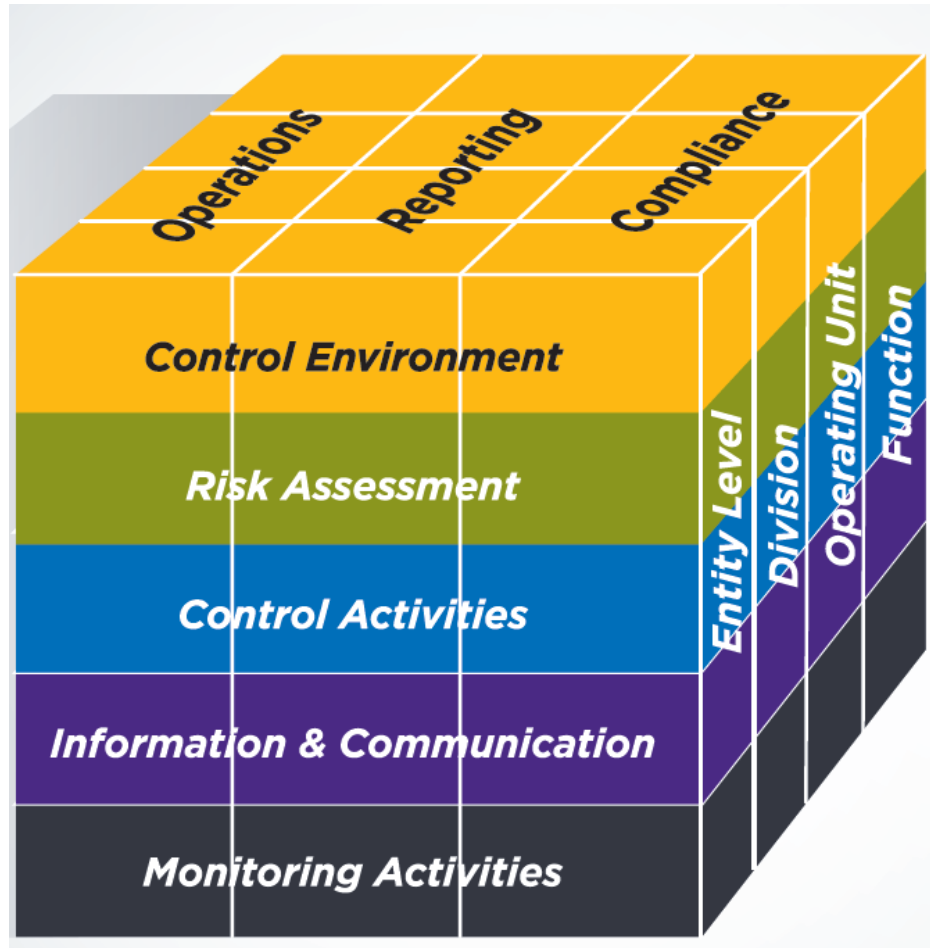
# Financial Institutional Policy I-1

“The *Fiscal Officer* is a person who is trained and hired for the purpose of providing fiscal, policy, and internal control management of all funds in a unit.

They are responsible for ensuring that processes and related controls have been established to achieve the mission and objectives of their organization(s).”



# Control Environment → Risk Assessment





# What are Risks?

- Anything that could jeopardize the achievement of your organizational or process goals or objectives
- Things that can “go wrong”
  - University level
  - Campus level
  - School level
  - Department level
  - Process level
- Internal controls are very difficult to implement without well established goals and objectives



# Risk Assessment

- Risk assessment is a process
  - Identify “significant” risks (. . . risks to what?)
  - Assess risks
    - Likelihood of occurrence
    - Potential impact
  - Mitigate risks through
    - Avoidance
    - Transfer or Sharing
    - Mitigating Controls
    - Acceptance of potential down-side





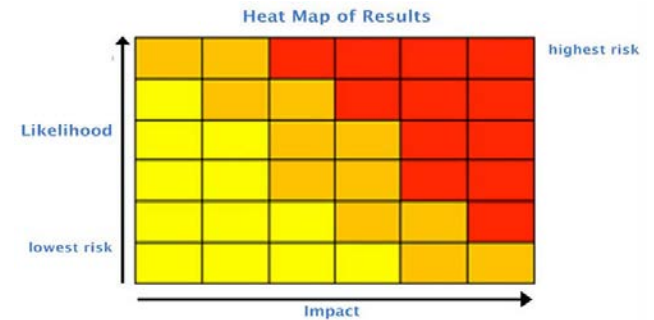
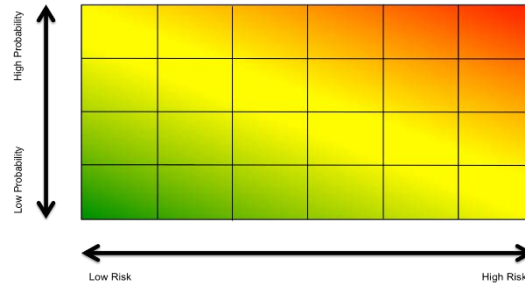
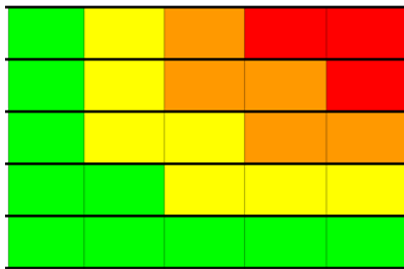
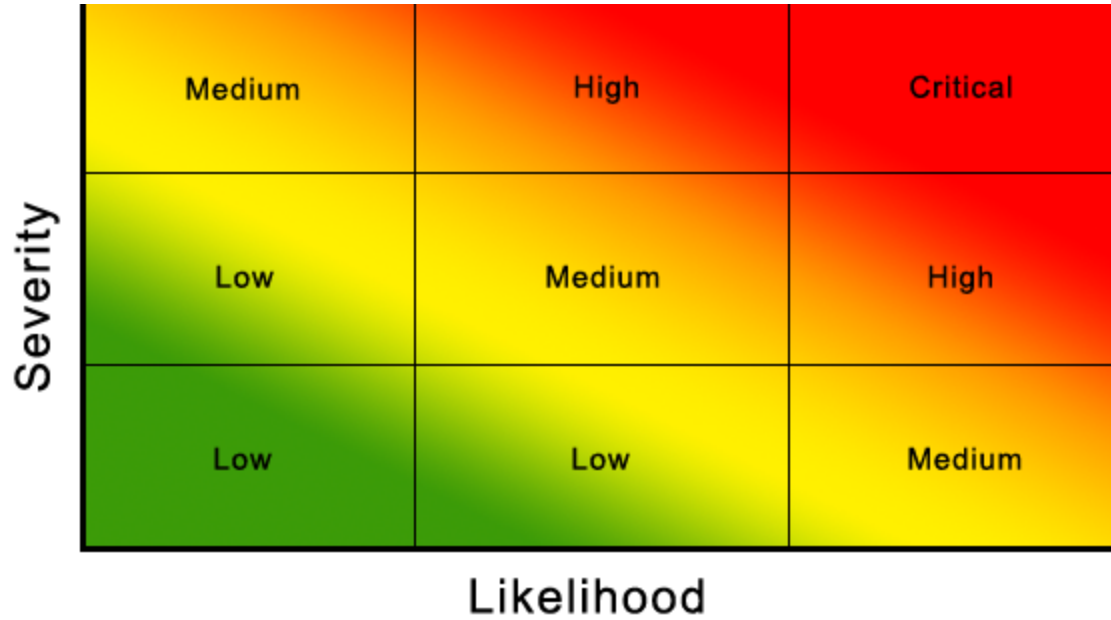
# Risk Assessment Factors

- **Likelihood** – probability of occurrence
  - Remote
  - Possible
  - Probable
- **Impact/Severity** – effect on IU/your organization
  - Loss of resources
  - Loss of public trust, bad publicity
  - Violation of policies, laws, regulations
  - Decreased enrollment
  - What else?

- This *will* require *P*\_\_\_\_\_ *J*\_\_\_\_\_



# Risk Assessment “Heat Map”





# Risk Mitigation

## Methods of Risk Mitigation

- Example: Retirement Plan Portfolio
- Avoidance (Ex. \_\_\_\_\_)
- Transfer or Sharing (Ex. \_\_\_\_\_)
- Mitigating Controls (Ex. \_\_\_\_\_)
- Accepting potential down-side (Ex. \_\_\_\_\_)

**Recall: risks are defined by goals & objectives**



# Name Some Risks IU Depts. Face

- Errors in financial & other reporting
- Non-compliance with policies, regulations, and laws
- Lack of operational efficiency & effectiveness
- Loss of assets – tangible assets, information, people
- Unauthorized use or damage to data
- Damage to reputation
- Fiscal misconduct
- Fraud
- Health and safety



**Indiana University Risk Assessment & Control Evaluation Matrix**

**Organizational Objective/Process Goal:**

<b>Risk Identification Organizational/Process Level</b>	<b>Risk Assessment</b>	<b>Control Activity</b>
		21



**Indiana University Risk Assessment & Control Evaluation Matrix**

**Organizational Objective/Process Goal:**

- Have a meaningful impact on the effective administration of the university
- Add value and improve operations by helping departments accomplish their objectives
- Assist departments evaluate risk management and control activities

<b>Risk Identification Organizational/Process Level</b>	<b>Risk Assessment</b>	<b>Control Activity</b>



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**Organizational Objective/Process Goal:**

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<b>Risk Identification Organizational/Process Level</b>	<b>Risk Assessment</b>	<b>Control Activity</b>
Risk that IA focuses its efforts on the wrong activities, schools, departments, or systems		
Risk that IA staff does not have the appropriate level of auditing, technology and communication skills to accomplish the organizational goals		
Risk that IA staff do not get timely cooperation from university, school or departmental personnel in this effort		23



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<b>Risk Identification Organizational/Process Level</b>	<b>Risk Assessment</b>	<b>Control Activity</b>
Risk that IA focuses its efforts on the wrong activities, schools, departments, or systems	Moderate	
Risk that IA staff does not have the appropriate level of auditing, technology and communication skills to accomplish the organizational goals	Moderate	
Risk that IA staff do not get timely cooperation from university, school or departmental personnel in this effort	High	





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**Organizational Objective/Process Goal:**

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<b>Risk Identification Organizational/Process Level</b>	<b>Risk Assessment</b>	<b>Control Activity</b>
Risk that IA focuses its efforts on the wrong activities, schools, departments, or systems	Moderate	Collaborative risk assessment and audit planning process; focus on highest risk concerns
Risk that IA staff does not have the appropriate level of auditing, technology and communication skills to accomplish the organizational goals	Moderate	Align recruiting and training activity with risk based audit plans; co-source or outsource audit work if technical expertise not available on staff
Risk that IA staff do not get timely cooperation from university, school or departmental personnel in this effort	High	Intentionally seek to be efficient and collaborative on all engagements; clearly communicate audit timeline and expectations to client; build relationships; fall back on the Audit Charter only when management is unresponsive



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# So What?



## Apply What We Have Learned

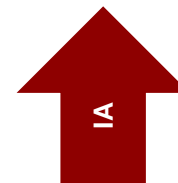
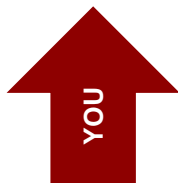
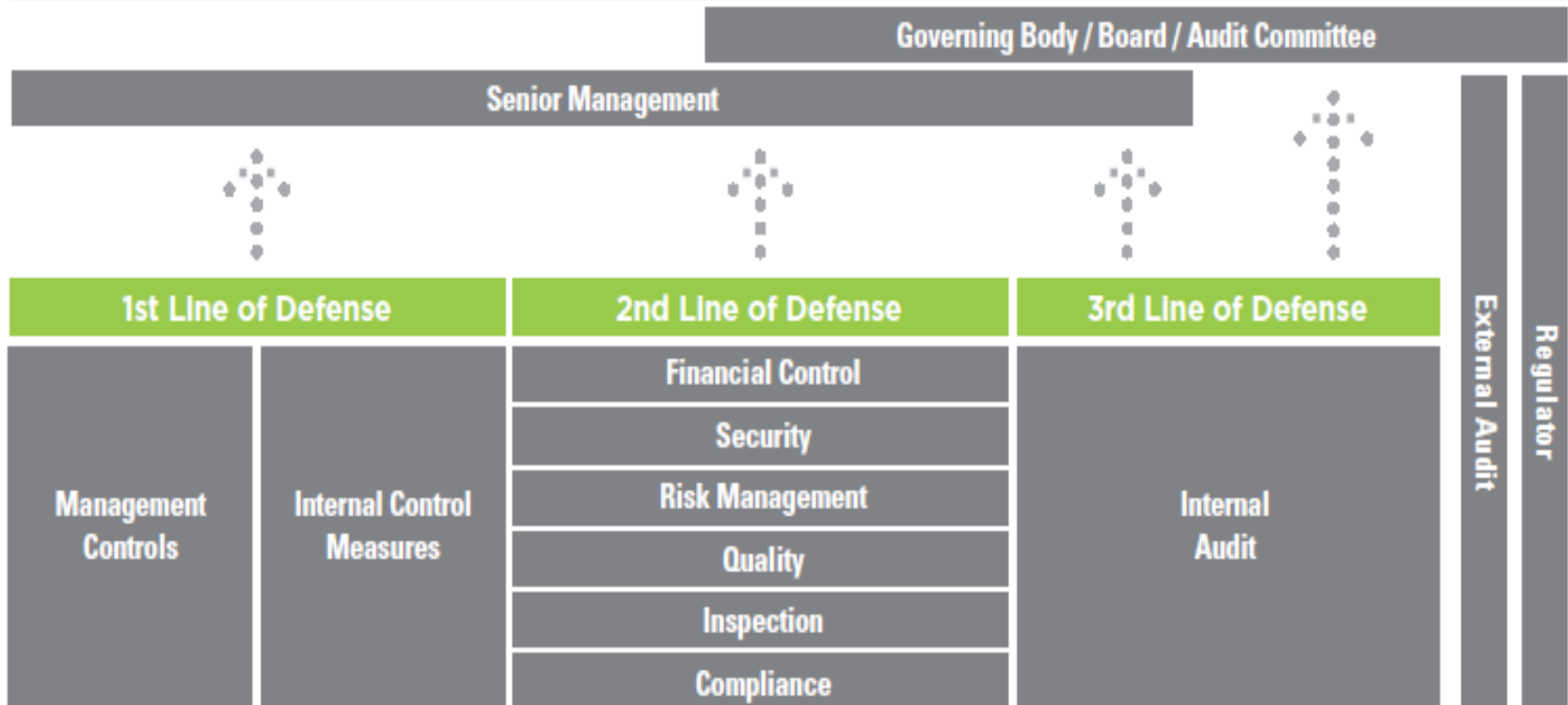
- Discuss with your senior leadership the importance of “setting the tone at the top” regarding internal controls and risk assessment
- Clarify & promote internal control expectations
- Conduct regular risk assessments to look for internal control issues and apply appropriate risk mitigation.
- Contact IA about a consulting or risk assessment engagement – or just to ask questions
- *Write at least one issue to address down now!*



# You Are on the Frontline

**Figure 2. Three Lines of Defense Model**

The Three Lines of Defense in Effective Risk Management and Control, The Institute of Internal Auditors, January 2013





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# Your Questions?



# Thank you