Internal Audit, Risk, Control, and Ethics

Campus Administrative Training Series

January 25, 2012

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Director, Indiana University Internal Audit
Session Objectives

• Discuss what **internal audit** is and how it functions at Indiana University

• Understand how to identify risks and conduct **risk assessments**.

• Be able to apply **internal control** concepts to mitigate risks and accomplish your objectives

• Clearly understand **ethical values and conduct** expected of Indiana University employees
Internal Audit at Indiana University

• What is internal audit?
• Why do we exist?
• What responsibilities and authority do we have?
• How do we decide what we’re going to audit?
• How do we want to relate to and work with other university personnel?
What is Internal Audit?

- Financial focus?
- Compliance police?
- Trouble makers?
- People who come in after the battle and bayonet the wounded?
- Satan’s spawn?
What is Internal Audit?

- Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes.
Definition of Internal Auditing

Key Components

• Assurance & consulting activity designed to add value and improve operations
• Helps an organization accomplish its objectives
• Evaluates and improves effectiveness of risk management, control, and governance processes.
• Independent & objective
• Systematic and disciplined approach
Independence and Objectivity

• **Independence**
  • The freedom from conditions that threaten objectivity or the appearance of objectivity (organizational)

• **Objectivity**
  • An impartial, unbiased mental attitude and avoidance of conflicts of interest (personal)
Accounting vs. Auditing

- **Accounting**
  - Includes the collection, classification, summarization, and communication of financial data. It involves the measurement and communication of business events.

- **Auditing**
  - Considers business events too, but does not have the responsibility to measure and report them. Rather, auditing is primarily analytical and investigative and focused on the evaluation of various processes an organization employs to meet its objectives.
Why do we exist?

Internal audit *can* and *should* have a major impact on the effective administration of the university.
Genesis & Evolution

• I.U. established the Internal Audit Department in January of 1956

• Due in large part to the rapid expansion of the Bloomington, Indianapolis and regional campuses

• Originally, one auditor

• By 1964 the staff had grown to eight and included staff on the IUPUI campus

• Reached maximum size of 12 in 1970
Genesis & Evolution

- Over the years focus has evolved from concentration on strictly financial audits to a broader scope encompassing internal control reviews, operational reviews of all activities within the university, information technology, fraud & ethics investigations, and many other areas outside the traditional financial focus.

- Today our organization is represented by the chart on the next slide....
Introduction

Indiana University supports Internal Audit as an independent appraisal function to examine and evaluate University activities as a service to management and the Board of Trustees. The mission of Internal Audit is to support members of the University in the effective discharge of their responsibilities. To this end, Internal Audit will furnish them with analyses, recommendations, counsel, and information concerning the activities examined.
Internal Audit Charter

Organization & Board Reporting

The Internal Audit Director will report to the Vice President and General Counsel, with dotted line reporting to the Finance and Audit Committee of the Board of Trustees. The committee will have final approval of the hiring, firing and salary changes for the Director.
Internal Audit Charter

Authorization & Responsibilities

Internal Audit has the authority to audit all parts of the University and shall have full and complete access to any of the organization's records, physical properties, and personnel relevant to the performance of an audit. Documents and information given to internal auditors during a periodic review will be handled in the same prudent manner as by those employees normally accountable for them.
Internal Audit Charter

Authorization & Responsibilities (continued)

Internal Audit will have no direct responsibility or authority for any of the activities or operations they review. They should not develop and install procedures, prepare records, or engage in activities that would normally be reviewed by internal auditors. Furthermore, an internal audit does not in any way relieve other persons in the University of the responsibilities assigned to them.
Internal Audit Charter

Mission Objectives

• Determine the accuracy and propriety of financial transactions

• Evaluate financial and operational procedures for adequacy of internal controls and provide advice and guidance on control aspects of new policies, systems, processes and procedures

• Verify the existence of University assets and ensure that proper safeguards are maintained to protect them from loss

• Determine the level of compliance with University policies and procedures, and state and federal laws and regulations
Internal Audit Charter

Mission Objectives (continued)

• Evaluate the accuracy, effectiveness and efficiency of the University's electronic information and processing systems

• Determine the effectiveness and efficiency of organizations in accomplishing their mission and identify operational opportunities for cost savings and revenue enhancements

• Coordinate audit efforts with, and provide assistance to, the Indiana State Board of Accounts and other external auditors

• Investigate fraud and other allegations of misconduct
Standards & Ethics

In all of its activities, Internal Audit will adhere to the *International Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics* adopted by the Institute of Internal Auditors.
How do we decide what to audit?

In a word…. **Risk**

We use risk assessment at two levels within internal audit:

1. Development of a risk-based annual audit plan
2. Selection of focus areas within individual audit topics
Risk Based Annual Audit Plan

• Annual risk assessments done in conjunction with senior administrative personnel from all parts of the University community

• Audit Plans focused on the areas of highest risk that come out of the risk assessment process

• Annual Audit Plan presented to IU Board of Trustees for review and approval

• Periodic updates to audit plans based on updated or new risk information
What are risks?

Risks - are anything that could jeopardize the achievement of established objectives

- **Objectives** - can be expressed in terms such as:
  - Operate effectively and efficiently and achieve our goals
  - Provide reliable financial data
  - Comply with applicable laws, policies, and procedures
  - Protect assets from loss

- **Risks** - can be at various levels
  - University
  - Campus
  - Schools or Departments
  - Processes & Systems
Risks and the Annual Audit Plan

• When developing our annual audit plan, we try to think about risks at a fairly high level, usually at the University, Campus, or major Process or System level

• Focus is on evaluating the impact and likelihood of the identified risks

• If you’re not in the habit of thinking about risks at this level, it might help to think about Indiana University at the entity level....
Overview Profile of Indiana University

- Founded in 1820 - approaching our bi-centennial
- Offers programs at 8 campuses, including 2 research campuses at Bloomington and Indianapolis
- Annual budget approaching $3 billion
- Annually enrolls over 100,000 students
- Employs more than 18,000 faculty and staff
- Sponsored research funding exceeds $500 million
- More than 200 research centers and institutes
- Endowment of over $1.5 billion
- Over 50 men’s and women’s sports teams
- Operates more that 1000 network servers
- Over 35,000 computers and work stations
- 100% of faculty and classrooms connected to campus network and internet through hardwire or wireless
Synopsis

We are an extremely complex, highly computerized organization that supports hundreds of activities at scores of locations, are dependent upon a combination of government and private funding, and our most important asset is probably our reputation.

Does this sound like there may be risks at the University?
Representative Risks

- Non-compliance with government and private funding requirements
- Financial controls breakdowns
- Reputation damage
- Athletic programs compliance
- State and Federal budget constraints ($59M budget cut, 100 jobs cuts)
- Grant and Research funding requirements
- Information Technology unauthorized access and use
- Environmental regulations
- Health and Safety issues
- Animal & Human subjects research
- Disaster Recovery/Business Continuity
- Privacy regulation compliance; HIPPA, FERPA, GLBA, etc
Working Together to Address Risks

• The internal audit plan that we take to the IU Board of Trustees reflects many of the risks identified on the prior slide
  • Macro-level risk assessment and management

• But what about the risks where most of the university’s day-to-day activities occur, at the departmental level
  • Micro-level risk assessment and management
Working Together to Address Risks

• Who’s responsible for identifying and addressing risks at the departmental level?
  
  We all are!!!

• Establishing an effective “control environment” to adequately reduce risks to the university, and to your departments, requires a collaborative effort from senior administrators, internal audit, fiscal officers, and other university personnel
Establishing the Control Environment

- Establish Control Environment
- Goals & Objectives
- Perform Risk Assessment
- Implement Control Activities
- Monitor Performance
- Information
- Communication

COSO Elements of Internal Control - 1992
Does it matter?

All this talk about risks and controls is giving me a headache!!

Are you sure it really matters???
So tell me again, what are Internal Controls why should I care?

- Internal Controls reduce risks to your organization, as well as the University

  and....

- It’s your job to care!!!
What are Internal Controls?

Internal controls are any processes, practices, or procedures that have been put into place to provide reasonable assurance that organizational goals are met or risks to organizational goals are effectively mitigated.
Internal Controls Considerations

- Internal controls are part of the overall control environment that I introduced in the model. They are a means to an end, not an end in themselves.
- Internal controls are effected by people. It’s not merely policy manuals and forms, but people at every level of an organization exercising their control responsibilities.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity’s management and board. Why?
- Cost/Benefit should always be a consideration in designing and implementing controls.
- Everyone in an organization has a responsibility for internal control.
Responsibilities for Internal Control?

Everyone in an organization has responsibility for Internal controls. More specifically:

• **Board of Trustees** – requiring an effective internal control environment be in place

• **Senior Administration** – responsible for establishing the control environment and ensuring it works as designed

• **Fiscal Officers** – ensure fiscal controls are in place and provide oversight concerning controls

• **Staff and Faculty** – responsible for carrying out internal control procedures

• **Internal Audit** – responsible for evaluating the effectiveness of internal controls and determining if they are functioning as intended
Why Internal Controls fail?

- Reasonable versus Absolute Assurance
- Cost versus Benefit
- Poorly Designed
- Human Errors - Bad Judgment
- Collusion
- Management Override

You may be sitting there thinking, this is intensely interesting stuff (yawn), but why should I care???
It’s your job to care

Financial Institutional Policy I-1

**Purpose**: “To clearly define the role of Fiscal Officer, Account Manager, and Account Supervisor in order to establish a process to ensure fiscal control, accountability and integrity for university accounts.”
It’s your job to care

Financial Institutional Policy I-1

Roles of Fiscal Officer, Account Manager, and Account Supervisor.

- Account Supervisor has a leadership or executive role.
- Account Manager has an operational role.
- Fiscal Officer has an oversight role.
Fiscal Officer oversight role includes:

- Daily oversight on how funds are spent and managed
- Ensuring that processes and controls are in place to:
  - Safeguard assets
  - Record and report transactions properly
  - Reconcile accounts timely
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).”

How are you going to fulfill this responsibility???
Would you like to have a tool???
Risk and Control Evaluation Matrix (RACE)

• **RACE Matrix** can be used to structure your thinking about each of the 5 elements of internal control that we will continue discussing

• Separate sheet for each objective or goal you are considering

• Remember, your thinking will need to be at both the organizational/departmental level and the process/activity level at different times
Indiana University Risk Assessment & Control Evaluation Matrix

Organizational Objective/Process Goal:

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Goals & Objectives

Establish Control Environment

Perform Risk Assessment

Implement Control Activities

Monitor Performance

Information

and

Goals & Objectives

and

Communication

Establish Control Environment
Goals and Objectives

• Internal control is pointless without goals and objectives

• Written goals and objectives focus efforts toward desired outcomes

• Written goals and objectives provide a rationale for resource allocation

• Written goals and objectives are evidence of thoughtful management

• How would we evaluate risks and controls or prioritize activities, if not in the context of goals & objectives?
Identify your significant Objectives & Goals

- Mission statement
- Department objectives & goals
  - Operations objectives
  - Financial reporting objectives
  - Compliance objectives
- Objectives & goals for all significant processes and activities
RACE Exercise

• Select one department represented at your table

• Identify and record on one of your RACE templates what you believe to be an important objective or goal of your department

• Internal Audit example

• 5 minutes to complete/5 minutes to discuss
**Indiana University Risk Assessment & Control Evaluation Matrix**

**Organizational Objective/Process Goal:** IA will have a **significant impact on the effective administration of the university.** We will add value and improve operations by helping departments accomplish their objectives, by assisting them in **evaluations of risk management and control activities.**

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Risk Assessment

Establish Control Environment

- Goals & Objectives
- Perform Risk Assessment

- Implement Control Activities
- Monitor Performance

Information

Communication
What are risks?

• **Risks** are anything that could jeopardize the achievement of your organizational or process objective or goals

• Risks are the “things that can go wrong” and can be at various levels:
  • University
  • Department
  • Process

• Most of us have responsibilities at the department and process level
Risk Assessment

• Risk assessment is a **process** intended to;
  • **Identify** “significant” risks
  • **Assess** those risks
    • What is the likelihood of occurrence?
    • What is the potential impact?
  • **Manage** risks through
    • Avoidance
    • Transfer or Sharing (Insurance)
    • Mitigate with Controls
    • Acceptance
Identifying Risks

• You probably know, but haven’t formally identified most of your risks

• For each objective, ask yourself:
  • What could go wrong?
  • What assets do we need to protect?
  • How could someone steal from us?
  • What is our greatest legal exposure?
  • Could we be out of compliance with IU policy, or applicable laws or regulations?
  • What else?
Typical risks all organizations face

- Errors in financial & other reporting
- Non-compliance with policies, regulations, and laws
- Sub-optimized operational efficiency & effectiveness
- Loss of assets – tangible & informational
- Unauthorized use or damage to data
- Damage to reputation
- Fraud
Assessing Risks

- **Likelihood** – probability of occurrence
- **Impact** – effect on IU/your organization
  - Loss of resources
  - Loss of public trust
  - Violation of policies, laws, regulations
  - Bad publicity
  - Decreased enrollment
  - What else?
- What about high impact/low likelihood risks?
RACE Exercise

• Each table, for the departmental goal you selected earlier, indentify and record on your departmental RACE template at least 3 risks that you think could negatively impact your ability to achieve that objective or goal.

• Internal Audit example

• 5 minutes to complete/5 minutes to discuss
**Indiana University Risk Assessment & Control Evaluation Matrix**

**Organizational Objective/Process Goal:** IA will have a significant impact on the effective administration of the university. We will add value and improve operations by helping departments accomplish their objectives, by assisting them in evaluations of risk management and control activities.

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<td>IA doesn’t have the right people with the right skills to accomplish this goal</td>
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<td>IA can’t get the cooperation of university or departmental personnel in this effort</td>
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<td>The university cuts the IA budget to a level that won’t allow us to accomplish this goal</td>
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Control Activities

- Establish
- Control
- Environment
- Implement
- Control
- Activities
- Perform
- Risk
- Assessment
- Goals &
  Objectives
- Monitor
  Performance
- Information
- Communication
Control Activities

- **Control Activities** are any policies, practices, procedures, or activities that mitigate risks and help to ensure that objectives and goals will be met.

- To be effective, control activities must be:
  - Well thought out and well designed
  - Sufficient to control the targeted risks
  - Consistently applied
  - Cost effective
  - Monitored
Common Control Activities

• Strategies & Plans
  • Documenting strategies and plans can serve as the road map to address risks

• Approvals, Authorizations, and Verifications
  • Having written policies and procedures and limits to authority

• Reconciliations
  • Explanations of the differences between two different sets of data

• Reviews of Performance
  • For programs, departments, and individual employees
Common Control Activities

- **Security of Assets**
  - Limiting access, keeping records, and making periodic counts to compare to our records

- **Segregation of Functions**
  - Initiation, approval, recording/reconciling, and custody functions should be separated

- **Controls over Information Systems**
  - **General Controls** – apply to the IT environment
    - Development & Policy
    - Networks & Performance
    - Security & Back-up
  - **Application Controls** – apply to individual applications
    - Address accuracy and integrity of input, processing and output
What needs to be approved?

- Per policy, all financial transactions must be approved by the dept Fiscal Officer.
  - FO can **delegate** signature authority

- What to approve and what to **delegate**?
  - Generally, the higher the risk activities the higher level of approval/authorization.
What needs to be reconciled?

• Information about high risk and high dollar activities should be reconciled to ensure accuracy and completeness

• Monthly operating reports should be reconciled to departmental records

• Payroll and PTO reports should be reviewed to ensure accuracy and completeness

• What else?
What assets need to be secured?

• Liquid assets, assets with alternative uses, dangerous assets, vital documents, critical systems, and confidential information need to be secured all need to be secured

• Access to these assets should be restricted

• Perpetual records should be maintained, periodic physical counts should be performed, and differences should be followed-up
What duties need to be segregated?

• It depends on the risk assessment, but…

• Generally, initiation, approval, accounting, reconciling, and asset custody functions should be appropriately separated.

• Duties related to cash handling, payroll processing, and purchasing are high risk and should be evaluated for adequate segregation of duties.

• In smaller operations adequate review and oversight is substituted for segregation of duties.
How do we control our computers?

• It depends on the risk assessment, but…

• If critical or confidential information, then **both the information and the computer** need to be controlled

• Basic control considerations include;
  • Password protecting information
  • Encryption of highly sensitive information
  • Virus Scanning
  • Backing-up information.
  • Off site storage
  • Physical security of equipment
  • What else?
RACE Exercise

• Each table, for the departmental goal you selected earlier, Identify and record on your departmental RACE template at least 1 or 2 control activities that you think would address each of the risks that you previously identified.

• Internal Audit example

• 5 minutes to complete/5 minutes to discuss
Indiana University Risk Assessment & Control Evaluation Matrix

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<td>IA focuses its efforts on the wrong activities or departments</td>
<td>Implement a collaborative risk assessment and audit planning process to ensure focus is on highest risk issues</td>
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<td>IA doesn’t have the right people with the right skills to accomplish this goal</td>
<td>Align training and recruiting activities with risk based plans. Co-source where necessary to ensure adequate expertise</td>
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<tr>
<td>IA can’t get the cooperation of university or departmental personnel in this effort</td>
<td>Charter ensures some cooperation. Collaborative, helping approach adds cooperation. Relationship building</td>
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<td>The university cuts the IA budget to a level that won’t allow us to accomplish this goal</td>
<td>Add value, focus on risks, cost benefit discussions. Ensure Trustees understand focus and impacts of budget decision</td>
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Monitoring Performance

Establish Control Environment

Goals & Objectives

Perform Risk Assessment

Implement Control Activities

Monitor Performance

Information

Communication
Monitor Performance

• Includes evaluating your internal control activities to determine if they are;
  • Adequately designed, properly executed, and effective

• How can we know?
  • Ongoing oversight
  • Periodic review of activities, especially when there is change in people, process, or system
  • Periodic evaluations
    • Self-assessment
    • Peer review
    • Internal audit
    • External audits
Information and Communication

• Employees need information to do their jobs
• Management needs information to effect control
• As fiscal officer, what can you do?
  • Know where to find and be familiar with policies and procedures
  • Make sure you obtain information and reports you need to monitor the operations, financial reporting and compliance objectives that you’re responsible for
  • Distribute the information and reports that employees and staff need
  • Discuss control activities with management and staff to facilitate awareness and understanding
RACE Exercise

Rather than completing the remaining two columns of the RACE template here in class, take the templates back to your organizations and think through the remaining columns.

Ask yourself;

- Will the controls I’ve identified for these risks really be effective at addressing the risks?
- If no, what additional controls might be needed
- If yes, what monitoring or periodic testing or review is warranted

Use the template for your other key objectives and processes too!
Revenue Producing Activities Case

You discover that your department is sponsoring an event that requires registration at a fee, payment for registration, and solicitation of donations at the event. (Revenue Producing Activities)

You learn of this activity when someone in your departmental IT organization tells you about the cool web-site they have set up to facilitate the registration process on-line, including the ability to take credit card payments. The web-site also indicates that registration and donations can be mailed in and that both credit card or check payments will be accepted at the time of the event.
Revenue Producing Activities Case

1. If you were not aware of this activity prior to hearing about it from the IT person, why not?

2. What is your role as fiscal officer in this type of activity?

3. What are the objectives, risks and controls associated with this type of activity?
   - Prepare RACE matrix: Include Objective, 3 Risks, and at least one control for each risk

4. What resources are available to provide guidance to departments and fiscal officers for revenue producing activities?
Revenue Producing Activities Case

1. Why weren’t you aware of this activity?

- Department runs a lot of these activities and never has a problem
- Fiscal officer is rarely involved in these activities
- Fiscal officer has been on FMLA leave
- Department head doesn’t like to involve fiscal officer in these activities because it stifles the creativity of others involved
- This doesn’t really appear to be an activity related to a fiscal officers core responsibilities
Revenue Producing Activities Case

2. What is your role as fiscal officer in this type of activity?

- Be aware of any revenue producing activities being planned by your department
- Decide with your department leaders if activity is appropriate/good idea
- Understand risks, responsibilities, and costs
- Obtain departmental approval
- Submit RPAQ (Revenue producing activity questionnaire) to Treasury for approval per Policy I 450
- Name and know departmental personnel involved in activity
- Ensure that personnel involved in activity have been trained
- Be aware of available tools Policy VI 120

The sooner you contact Treasury the better!!!!
Revenue Producing Activities Case

3. What are the risks and controls associated with this type of activity?

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### Indiana University Risk Assessment & Control Evaluation Matrix

**Organizational Objective/Process Goal:** Raise as much revenue as possible from the departmental event

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<td>Breach of security risk associated with handling and potentially losing personal credit card information and financial impact of mitigation</td>
<td>Go through Treasury for approval and training of any revenue producing activity – before beginning the processes</td>
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<tr>
<td>University reputational risk associated with credit card security breach</td>
<td>Go through Treasury for approval and training of any revenue producing activity – before beginning the processes</td>
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<td>Fraud risk associated with handling checks and cash</td>
<td>Treasury training includes extensive controls around how to handle checks, including proper endorsement, etc</td>
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<tr>
<td>Damage to departments reputation if event gets cancelled because it’s revenue process doesn’t comply with university policy</td>
<td>Treasury approval and training Consider use of IU Conferences rather than handling the process at the department level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donor risk if donors don’t get credit or tax benefit</td>
<td>Get input from IU or IUF personnel on this issue</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Revenue Producing Activities Case

4. What resources are available to provide guidance for revenue producing activities?

- Finance Policy I 450 – Revenue Producing Activities
- Treasury Policy VI 120 – Revenue Producing Activities
- Ruth Harpool, Director Treasury Operations 812-855-3910
- http://www.iu.edu/~iutreas/staff.html
The Risk Assessment/Management Process

1. Organizational Objectives
2. Identify & Assess Risks
3. Identify Current Controls
4. Identify & Assess Residual Risks
5. Acceptable
   - Yes: Monitor and Re-evaluate Risk and Controls Periodically
   - No: Action

If the action is not acceptable, it returns to the Identify & Assess Risks step.
The Final Piece of the Puzzle

• All 5 of the previously discussed elements of effective control environments can be in place and an organization can still be exposed to significant risks and prone to control breakdowns

Why?

• Lack of appropriate “Tone at the Top” and ethical expectations
“Tone at the Top”

- Tone at the Top encompasses;
  - High ethical standards and integrity, communicated throughout the institution
  - Commitment to values and right behaviors
  - Risk and control consciousness
  - Commitment to competence
- Without these “Tone at the Top” elements, the other components of control environments cannot be effective
Who’s Responsible for “Tone at the Top”?

- Board of Trustees
- University senior administration
- Campus senior administration
- Departmental leaders

You and me!!!!
What do we mean by “Tone at the Top”?  

- Promote ethical values & conduct  
- Lead by example  
- Be approachable  
- Compliance w/Policy  
- Don’t circumvent rules  
- Consistent and right treatment of people  
- Fix problems  
- Equal treatment for equal offenses  
- Reward things that are done right  

More specifically, what is ethical conduct?
Ethical Conduct – Working Definition

“Doing the right thing”

What if I don’t know what the right thing is?
What is the Right Thing?

Ask yourself 3 relatively simple questions:

1. **Is it legal and in compliance with IU policy?**
2. **Is it fair, honest, responsible, and respectful of individuals**
3. **Would it pass the newspaper test or the Mom test?**

If the answer to all three questions is yes, you’re probably OK.

*But what if I still have questions?*
An ethical dilemma means you’re not sure what the right thing to do is in a given situation

Let’s look at a few situations....
Ethical Dilemma #1

A company that does a lot of business with your school/department offers you a part-time job working on the weekends.

What should you do?

1. Take it, it’s a lot of $’s for a few hours work, and you have kids’ college tuition to pay.
2. Refuse it, it could put you in a conflict of interest position
3. Discuss it with your supervisor and HR before you decide
Ethical Dilemma #2

The company that does all of your department’s shredding sends you a $100 gift certificate for being such a good customer

What should you do?

1. Take it, it’s only a small token and that’s the way businesses do things
2. Send it back, explaining that university personnel aren’t allowed to accept gifts
3. Share it with others in the department by taking them all out to lunch
Ethical Dilemma #3

A consulting firm that your department has engaged services with in the past sends a fruit basket to you at the office at Christmas

What should you do?

1. Take it, it’s only a small token and that’s the way businesses do things
2. Send it back, explaining that university personnel aren’t allowed to accept gifts
3. Share it with others in the department
Ethical Dilemma #4

Your administrative assistant wants to take the afternoon off to attend his child’s graduation ceremony, but he has no vacation hours left. He says he will make it up the following week.

What should you do?

1. Let him take the time off and make it up the following week.
2. Let him take the time off and don’t worry about making it up, it’s only a few hours.
3. Insist that if he takes the time off it must be without pay.
Ethical Dilemma #5

Your Dean informs you that she wants the school to begin selling a selection of “gift/logo” items via the Web. She tells you she wants you to deposit the revenues received by the sales into the school’s unrestricted IU Foundation account so “we can have funds to pay for all those little “extras” that the university won’t allow”

What should you do?
Ethical Dilemma #5

What should you do?

1. Do as the Dean says. This doesn’t appear to be an issue

2. Tell the Dean that you think this is an inappropriate activity or use of the funds

3. Ask the Dean to allow you to consult with other university personnel to determine whether this is appropriate before proceeding
Ethical Dilemma #6

You are made aware that someone in your organization has a “side” business selling cosmetic products. This person is soliciting orders, delivering products, and collecting money from other department and university personnel during normal working hours.

What should you do?

1. Ignore it. She’s the Dean’s admin, and besides this type of thing happens everywhere.

2. Let the Dean know about the situation, explaining that you feel this is a “conflict of commitment” issue in violation of policy.

Employee Conduct – Staff Handbook

“Conflicts of Commitment” – occur when the time or effort that an employee devotes to external activities interferes with the employee’s fulfillment of assigned university responsibilities, or when an employee makes unauthorized use of university resources in the course of an external activity.

“Conflict of Interest” – occur when an employee or immediate family member receives personal financial benefit from the employee’s university position in a manner which may inappropriately influence the employee’s judgment or compromise the employee’s ability to carry out university responsibilities or could be a detriment to the university’s integrity.
Ethical Conduct – Who Ya Gonna Call?

- Supervisor
- Human Resources
- Purchasing
- Accounting/FMS/Treasury
- Internal Audit/Ethics Point Hotline
- University Legal Counsel
- Police
QUESTION

What specifically are you going to do to promote a strong ethical environment in your organization?

- Discuss with your senior leadership the importance of “walking the talk”
- Clarify & promote ethical expectations for your organization
- Train new and/or existing employees on university ethical expectations (conflicts of commitment, conflicts of interest, etc)
- Consistently react to ethical lapses in your organization
- Others???
Welcome to Internal Audit

We are an independent, objective assurance, and consulting activity designed to add value and improve an organization's operations. We help an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
http://www.indiana.edu/~iuauudit/
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812-855-0271 or 812-855-3361
Questions/Comments?