

Orientation for New Academic Leaders

University Risk and Compliance

**Presented by: Charley B. Clark
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University Risk and Compliance

Broad Areas of Responsibilities:

- Safety and Security
 - Environmental Health and Safety
 - University Police
 - Task Force on Campus Emergencies (co-chair)
- Risk Management
- Compliance Program
- Rules/SAPs
- Management Advisory Services
- Audit Liaison
- Fraud Program

Safety and Security

- Coordinate the management and communication related to the health, safety, and security issues facing the University community.
- Safety is the responsibility of all
 - including students, faculty, and staff at all levels.
- Report any concerns regarding health and safety on the Texas A&M University campus.

Task Force on Campus Emergencies

- Co-chaired by Rodney McClendon and Charley Clark.
- Established as a result of the Virginia Tech tragedy.
- Tasked with continually seeking and implementing the best feasible solutions for managing emergency situations.
- Code Maroon Emergency Notification Service – provides emergency information by e-mail and text message. <http://codemaroon.tamu.edu/>

Risk Management

- Integrate an enterprise risk management process at Texas A&M University to manage risks
- Perform risk assessments
 - Identify major activities and responsibilities
 - Identify and rank associated risks
 - Document mitigating activities used to manage risks
 - Review and evaluate the monitoring activities for the high risk areas
- Continuous process

Compliance Program

- Promote ethical practices and strengthen compliance with regulations, policies, and agreements that govern the University
 - Educate individuals on compliance requirements and responsibility for integrity in the workplace
 - Emphasize that doing the right thing makes operations run more smoothly
- Provide guidance to University personnel
 - Compliance Helpline (862-7737 or 862-1624)
 - ADA Helpline (862-7737 or 845-0977)
 - Report an ADA issue via the web at:
<http://compliance.tamu.edu/ADAReportAccessIssues.aspx>

Hot Compliance Topics

- Portable Computing and Storage Devices
- FERPA
- Open Records
- Conflicts of Interest
- Export Controls
- Campus Safety Culture

Rules/SAPs

- Coordinate the development, review, and approval for new and revised University Rules and Standard Administrative Procedures (SAPs).
- Distribute approved new and revised Rules and SAPs to the University community.
- Coordinate University comments regarding new and revised draft System Policies and Regulations.

Management Advisory Services

- Provide objective analyses and consulting services to University organizations to
 - improve operational effectiveness and efficiency
 - enhance compliance
 - improve business processes
 - review organizational structures
 - strengthen the control environment
 - effectively manage risks
- Services provided at no cost to the dept.

Audit Liaison

- Assist and support management in responding to auditors and other external reporting agencies.
 - Provide advice and assistance on the audit process.
 - Provide up-to-date information to executive management.

FY2008 Audit Plan

- Review of Transportation Services Operations
- Review of Human Resources Processes
- Review of Management of Conflict of Interest in Research
- Review of Major Specialized Systems Development
- Review of Historically Underutilized Business Information
- Review of Contract Administration Processes
- Review of the Advanced Research Program Awards
- Review of TTVN Rates
- Review of Memorial Student Center Operations
- Review of Financial Management Services at TAMU-Galveston

Common Audit Issues

- Fiscal Accountability
 - Segregation of Duties
 - Reconciliations
 - Timely Deposits
 - Documented Operating Procedures
- Human Resources
 - Hiring Procedures
 - Required Training
 - Timely Completion of Annual and Probationary Performance Evaluations
 - Annual Updates of Position Descriptions

Common Audit Issues (cont'd)

- Information Technology
 - Governance
 - User Access Management
 - User Authentication
 - Backup of Critical Data
- Contract Administration
 - Non-Existence of Contracts and Formal Agreements
 - No Approval of Contracts Prior to Start Date
 - Lack of Proper Delegation of Authority
 - Missing Required Reviews by General Counsel
 - Lack of Automated Systems to Track and Monitor Contracts for Performance or Required Deliverables
- Student Travel
 - Institutional Travel Notifications
 - Student Waiver and Release Forms

Audit Process

- Notification by System Internal Audit
- Entrance Conference
- Planning work performed
- End of Planning Meeting
- Fieldwork performed with status meetings as needed
- End of Fieldwork Meeting to present all audit items
- Exit Conference Draft Report issued for comment
- Draft Report issued for University response
- Final report issued to Board of Regents in quarterly audit report
- Recommendation Implementation Tracking
- Follow-Up

Fraud Program

- As required by the Texas Governor's Executive Order RP-36, Texas A&M University has appointed the following fraud contact person:
 - Charley B. Clark
Assoc. Vice President, Univ. Risk and Compliance
- Information on fraud detection and prevention practices for State Agencies, as well as helpful tools and best practices, can be found on the Texas Governor's website at <http://www.governor.state.tx.us/priorities/other/fraud>.

Occupational Fraud

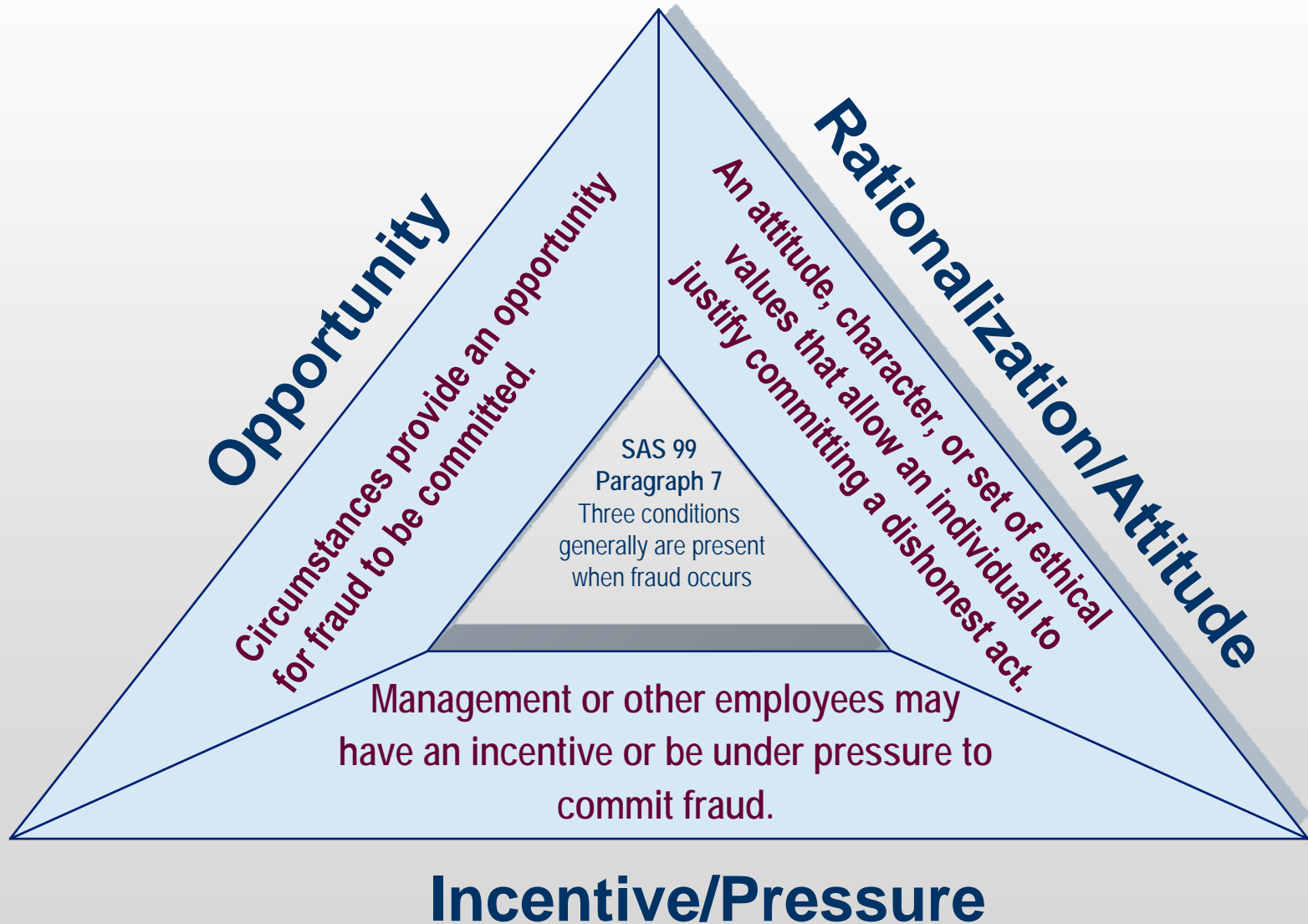
The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

Elements of Occupational Fraud

- Activity is done in secret
- Violates the employee's duty of trust to the employer
- For the purpose of direct or indirect financial gain
- Organization loses assets, revenues, or reserves

The Fraud Triangle

(Source: State Auditor's Office)



Common Fraud Schemes

- Billing
- Payroll
- Expense reimbursement
- Check conversion
- Journal entry manipulation
- Lapping of sales or receivables
- Skimming
- Stealing money/merchandise
- Kickbacks/bribery
- Falsifying internal reports
- Price-fixing
- Fraudulent financial reporting
- Software piracy/unauthorized use of computers
- Bid rigging
- Fraudulent disbursement
- False refunds
- Fraudulent check coding
- Inventory shrinkage or inflation
- Stealing money/merchandise
- Kickbacks/bribery
- Falsifying internal reports
- Price-fixing
- Fraudulent financial reporting
- Software piracy/unauthorized use of computers
- Bid rigging
- Insider trading
- Computer crime
- Incoming cash and deposit larceny

Profile of an Embezzler

- Excellent attendance record
 - Comes to work even when very sick
 - Never takes a vacation
 - Willing to stay late and work weekends
- Performs job extremely well
- Always willing to take on additional responsibilities
- Is the “ideal”, “indispensable” employee

Detecting Fraud

- Become knowledgeable about fraud schemes
- Know the warning signs (red flags or fraud indicators)
- Monitor
- Follow up on suspicions
- Take action when fraud is detected

WARNING SIGNS of FRAUD

- Accounting irregularities
 - Documents altered
 - Documents falsified
 - Documents missing
- Rule breakers
- Big spenders
- People with financial problems

Red Flags: Employees



- Marked personality changes in employees
- Financial pressure on employees
 - High personal debts
 - Great financial losses
 - Extensive gambling
- Key employees with too much control
- An employee living beyond his or her means
- Associations with vendors outside of normal working relationships
- Developing outside businesses closely associated with main employment

Red Flags: Employees



- Extensive use of alcohol and drugs
- Significant personal or family problems
- Skipping vacations
- Extensive overtime
- Questionable background and references
- Extensive sick leave
- Expressed feelings that pay is not commensurate with responsibilities
- Strong desire to beat the system
- Regular borrowing of small amounts from fellow employees

Red Flags: Transactions



- Unauthorized transactions
- Unexplained pricing exceptions
- Excessive payments to vendors
- Changes in purchasing norms
- Large petty cash transactions
- Inability to trace invoices
- Rising or unexplained department expenses

Texas Penal Code

Section 31.03: Increases penalties for thefts committed by public servants.

- If the person committing the theft is:
 - defined as a public servant at the time of the offense, and
 - the stolen property came into the person's possession by virtue of his or her position,
 - then, the punishment increases to the next highest category.

Reporting Fraud

It is your responsibility as an A&M System employee to report fraud.

- **Report suspected fraudulent incidents in accordance with System Policy 21.04 Control of Fraud and Fraudulent Actions.**
 - Employee's supervisor;
 - CEO; or
 - Chief Auditor (System Internal Audit)
 - Fraud, Waste, and Abuse Hotline: (888) 501-3850
 - Website: http://tamus.edu/offices/iaudit/report_fraud/

Preventing Fraud

- Most cost-effective way to deal with fraud is to prevent it through good internal controls
 - Put someone in charge
 - Create a culture of honesty
 - Adopt an ethics policy
 - Conduct a fraud risk assessment
 - Develop policies and procedures
 - Provide staff with training
 - Create a reporting mechanism for reporting irregularities (hotline)
 - Establish consequences

Internal Control

Definition: A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

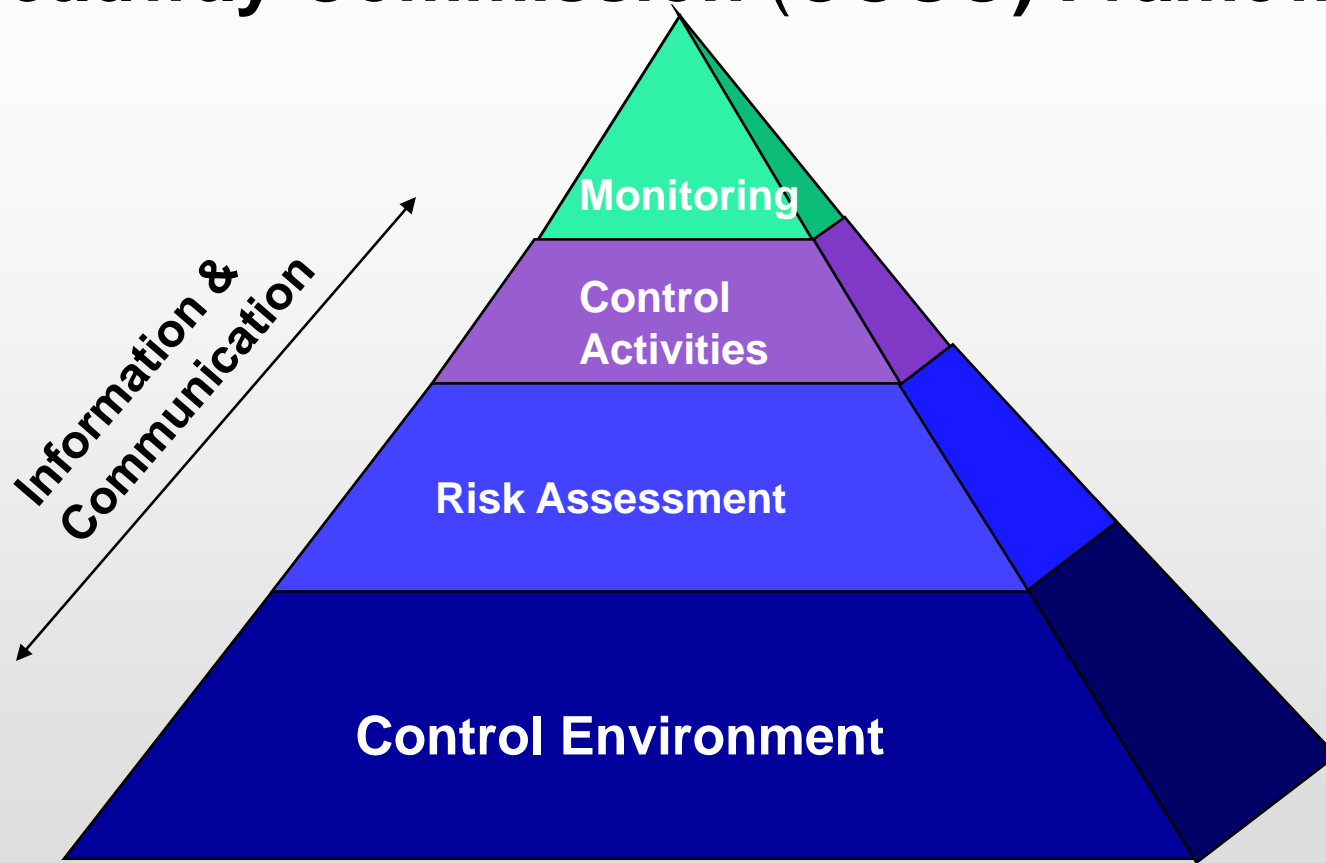
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Internal Control

Key Concepts:

- Internal control is a *process*. It's a mean to an end, not an end in itself.
- Internal control is effected by *people*. It's not merely policy manuals and forms, but people at every level of an organization.
- Internal control can be expected to provide only *reasonable assurance*, not absolute assurance, to an entity's management and board.
- Internal control is geared to the achievement of *objectives* in one or more separate but overlapping categories.

Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework



Achieving Objectives
Strategic, Operations, Reporting, Compliance

Control Environment

- Sets tone for organization and serves as a foundation for the other components
 - Integrity and ethical values
 - Commitment to competence
 - Board of Regents' oversight
 - Management's philosophy and operating style
 - Organizational structure
 - Assignment of authority and responsibility
 - Human Resources policies and procedures

Risk Assessment

- Every organization faces a variety of risks from external and internal sources that must be assessed.
- Risk assessments include identifying, analyzing, and managing risks relevant to the achievement of the organization's objectives.

Control Activities

- Policies and procedures that help ensure management directives are carried out.
- Control activities occur throughout the organization, at all levels and in all functions.
- Include a wide range of activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Monitoring

- Ensures that the internal control system continues to operate efficiently and high risk areas are effectively managed
- Can be assessed through:
 - Ongoing monitoring activities such as regular management and supervisory activities; and/or
 - Separate evaluations such as self-assessments.
- Internal control deficiencies are reported to the appropriate management level

Information and Communication

Ties other components together

- Information is:
 - Delivered to people timely and in an useful format
 - Exchanged up, down, and across the organization and with external parties
 - Provided to help personnel understand their role in the internal control system and how their activities relate to the work of others

Roles and Responsibilities

Everyone in an organization has responsibility for internal control.

- **Management** is directly responsible for internal controls.
- **Board of Regents** provides guidance and oversight.
- **Internal Auditors** evaluate the effectiveness of control systems, and contribute to ongoing effectiveness.
- **Other Personnel** are responsible for exercising due care in performing their duties and reporting any noncompliance with the code of conduct, or other violations of policy or illegal actions, to a higher organizational level.

Limitations of Internal Control

- **Judgment** – managers can make bad decisions
- **Breakdowns** – people with control responsibilities may not carry them out effectively
- **Management Override** – a manager may intentionally go outside established practices for illegitimate purposes
- **Collusion** – two or more people can collaborate to subvert controls
- **Costs versus Benefits** – resources are limited. Managers properly accept a degree of risk when the cost of controlling that risk exceeds the benefit

University Risk and Compliance

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