Effectively Controlling Risks

The University of Texas at Dallas Compliance Training
Effectively Controlling Risks

- What is the purpose of this training?
- Why do we need to understand internal controls?
- What is internal control?
- What are the components of internal control?
- What is fraud?
- Where can I learn more?
What Is the Purpose of This Training?

To help faculty and staff understand, evaluate, and manage internal controls and risks.

This training is required annually for all employees who are responsible for managing accounts and/or have signature authority.
Why Do We Need to Understand Internal Controls?

- Highly publicized frauds at other universities have caused concerns among U.T. System and component administrators.
- What was determined to be the problem?

WEAK INTERNAL CONTROLS
What Is Internal Control?

- Internal control is a PROCESS, effected by the University’s governing board, administration, faculty, and staff, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

  ✓ Effectiveness and efficiency of operations
  ✓ Reliability of financial reporting, and
  ✓ Compliance with applicable laws and regulations.
Internal Control Process

- Ensuring effective control environment
- Setting objectives
- Assessing **risks**
- Implementing **controls**
- Communicating
- Monitoring
Ensuring an Effective Control Environment

- Management is responsible for establishing an effective control environment, or ethical “tone” at the top. This includes the integrity and ethical values of its people, their competence, and the way they do business.
Ensuring an Effective Control Environment

- A control conscious environment ensures employees are aware of the following:
  - Standards of Conduct Guide
  - Regents’ Rules, Business Policy Memoranda, etc.
  - Department standards of conduct
  - UTD Policies and Procedures
  - Departmental policies and procedures, job descriptions
  - Conflict of Interest -- disclosure forms
  - Ethics Guide
  - Zero tolerance of fraud and conflicts of interest
  - Letter to Faculty and Staff from Dr. Daniel
Setting Objectives

- Departments must define their goals and objectives, considering both the department’s and UTD’s:
  - Mission
  - Operations
  - Financial reporting
  - Compliance
  - Significant activities or processes
Assessing Risks

- A risk assessment identifies and analyzes risks associated with achieving your objectives.
- A risk assessment helps form a basis for determining how to manage identified risks.
Risks

Risk is the possibility that UTD will NOT:

- Achieve its goals
- Operate effectively and efficiently
- Protect itself from loss
- Provide reliable financial data (reports)
- Comply with applicable laws, regulations, policies, and procedures
Assessing Risks

Identify and analyze potential risks by asking certain questions:

- What must go right?
- What could go wrong?
- What is the possible IMPACT?
- What is the PROBABILITY – or likelihood of occurrence?
Assessing Risks

Types of high risk transactions (depending on your department):

- Cash/check handling
- Travel
- Consultant payments
- Equipment (laptops, etc.)
- Scholarships
- Payroll
- Contracts & grants
- Confidential information
- Purchasing Cards
Implementing Controls

- Control activities help ensure that actions identified as necessary to manage risks are carried out properly and in a timely manner.
- Control activities should be proactive, value-added, and cost effective.

Properly balancing risks and controls makes good business sense!
Implementing Controls

Examples of Control Activities:

- Ensuring proper approval for expenses, time reporting, etc.
- Securing assets (limiting access, keeping records, and making periodic counts comparing department records with official records)
- Segregating duties (ensuring that no ONE person can initiate, approve, record, and receive the same transaction)
- Establishing controls over information systems
Communicating Information

- Reliable and relevant information, from both internal and external sources, must be identified and communicated to employees.
- Communicate policies and procedures up, down, and across the organization in a timely manner.
- Only communicate sensitive or confidential information to those who need it.

✓ Job responsibilities
✓ Goals and objectives
✓ Information to assess risks
✓ Policies and procedures
✓ Laws and regulations
✓ Performance indicators
✓ Customer feedback
✓ Performance evaluations
Monitoring

Monitoring involves evaluating internal control performance over time to determine whether controls are:

- Adequately designed,
- Properly executed, and
- Operating effectively.
Monitoring

Monitoring activities include:

- Managerial and supervisory monitoring, such as reconciliation reviews, performance evaluations, periodic inventory counts
- Compliance inspections
- Internal audits
- Self-assessments
Monitoring

What is a self-assessment?

A self-assessment is a “self-audit” of a department’s internal control components. For assistance with this process, contact the Office of Audit and Compliance at 2693.
Effectively Controlling Risks

Summary

What does all this have to do with me?

- Internal control effectiveness is primarily determined by the knowledge and commitment of ALL UTD employees.
- By knowing UTD’s internal control policies and procedures and complying with all laws and regulations, YOU can help UTD achieve its goals.
- This training is an internal control activity!
Effectively Controlling Risks
Where Can I Learn More?

- Your supervisor.
- The Office of Audit and Compliance at 2693.
- UT System Action Plans to Enhance Internal Controls
- COSO (Committee of Sponsoring Organizations) Internal Control – Integrated Framework
Fraud, Errors and Omissions

- Who’s responsible?
- What are the rules?
- Why/How does it happen?
- What are the warning signs?
- How do I find out more?
Fraud, Errors and Omissions

Who’s Responsible?

- The minimization of fraud, waste, and abuse is every employee’s responsibility.
- Fraud forces all Texans to pay more for goods and services.
Fraud, Errors and Omissions

Who’s Responsible?

• Each employee is responsible for knowing and understanding the technical requirements associated with the performance of his or her job duties and for taking steps to prevent errors and omissions.

• Every department is responsible for maintaining a strong system of internal controls that will reduce the risks of fraud, errors, and omissions.
Fraud, Errors and Omissions

What are the rules?

- The UT System fraud policy (http://www.utsystem.edu/policy/policies/uts118.html) requires prompt identification and internal investigations of any suspected instances of fiscal irregularities.

- The Texas State Governor’s Office issued Executive Order RP36 (http://governor.state.tx.us/news/executive-order/10997/) relating to preventing, detecting, and eliminating fraud, waste and abuse at state agencies.
Examples of fiscal irregularities:

- Forgery or alteration of checks, time cards, billings, medical charts or prescriptions, student grades, transcripts or loan documents;
- Signing someone else’s name on a document;
- Wrongfully taking or using funds, supplies, or any other asset;
- Illegal or fraudulent handling or reporting of money transactions; and
- Acceptance or solicitation of any gift, favor, or service that might influence the employee.
Fraud, Errors and Omissions

Why and how does it happen?

- Poor or weak internal control system
- Lack of monitoring of internal controls
- High management turnover
Fraud, Errors and Omissions

Why and how does it happen?

- Employees are tempted by fraud due to financial crisis, family problems, gambling/drinking/drugs, or just living beyond their means. They may justify their actions by pointing out that their bosses or co-workers sometimes don’t go by the rules in other situations. Be aware and set an example!
Fraud, Errors and Omissions

What are the warning signs?

- An employee won’t take a vacation
- Account reconciliations are not being performed
- Reports/documents are missing
- One employee “does it all”
- Documentation for payments is not the originals
What If I Suspect Fraud?

Definition: *intentional* wrongdoing, error, omission, inefficiency, waste, ineffectiveness, or conflict of interest
What If I Suspect Fraud?

If you suspect fraud, contact your supervisor, or the UTD Hotline:

1-888-228-7707

website: The Network's Web Reporting System

Other important references:

UT System Fraud Policy
Governor’s Executive Order on Fraud
You have finished reviewing required course materials for Effectively Controlling Risks training.

To receive credit for this course, you must complete and receive a satisfactory score on the corresponding quiz for this learning module.
Need More Help?

If you need additional help regarding compliance issues or have suggestions for improving future training, please contact us!

- Call the Compliance Office at 972-883-2233, or
- Send us an email at compliance@utdallas.edu
- Visit the Compliance Training website for additional information: http://www.utdallas.edu/audit-compliance/training.htm