WHO’S AFRAID OF INTERNAL CONTROLS? NOT ME!

USING INTERNAL CONTROLS TO MAKE HIGHER EDUCATION COMPLIANCE PROGRAMS MORE EFFECTIVE

2020 SCCE Higher Education Compliance Conference
Agenda

1. Internal Controls Overview
2. Designing & Developing Internal Controls
3. Taking Action & Getting Started

INTERNAL CONTROLS OVERVIEW
**INTERNAL CONTROLS**

**WHAT ARE INTERNAL CONTROLS?**

Internal controls are the mechanisms, rules, and procedures implemented by an entity and designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Ensure financial and accounting information integrity
- Promote accountability and reduce opportunity / potential for internal staff and administrators to commit fraudulent activities
- Promote federal compliance and adherence to laws and regulation
- Improve operational efficiency by communicating clear rules and regulations
- Help facilitate internal and external audits

**INTERNAL CONTROLS**

**WHY DO WE NEED THEM?**

Internal controls protect your institution (and your stakeholders) from waste, fraud and abuse – which can all lead to:

- Legal ramifications and lawsuits
- Costly audit findings
- Loss of external funding (research, federal student aid, state funding)
- Personnel turnover
- Damaged reputation
- Lost data and assets
- Life and safety
The Green Book: Standards for Internal Control in the Federal Government

- Sets the standards for an effective internal control system for federal agencies.

COSO: Internal Control Integrated Framework

- Help institutions ensure proper internal controls were set in place and compliance measures met.

INTERNAL CONTROLS
FEDERAL GUIDANCE & REFERENCE MATERIALS

INTERNAL CONTROLS
COSO FRONT FACE: ACTIVITIES OF INTERNAL CONTROL

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>Risk Assessment</th>
<th>Control Activities</th>
<th>Information and Communication</th>
<th>Monitoring Activities</th>
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</thead>
<tbody>
<tr>
<td>Sets the tone of an organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.</td>
<td>Institution’s identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.</td>
<td>Policies and procedures that help ensure that management directives are carried out.</td>
<td>Identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.</td>
<td>Process that assesses the quality of internal control performance over time.</td>
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</table>
INTERNAL CONTROLS
COSO SIDE FACE: WHERE THESE ACTIVITIES ARE IMPLEMENTED

<table>
<thead>
<tr>
<th>Entity Level: Boards</th>
<th>Entity Level: Organization</th>
<th>Division</th>
<th>Operating Units and Functions</th>
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<tbody>
<tr>
<td>Boards must oversee:</td>
<td></td>
<td></td>
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<tr>
<td>1) Program and process, “Is the compliance function doing everything on the face of the cube?”</td>
<td>Institutional compliance function:</td>
<td>Subject-specific compliance functions:</td>
<td>Compliance consumers:</td>
</tr>
<tr>
<td>2) Monitoring high risk compliance areas, “Are we in compliance?”</td>
<td>1) Design and implement everything on the face of the cube organization-wide</td>
<td>1) Design and implement everything on the face of the cube in their area, such as HR, Safety, and Privacy</td>
<td>1) Follow the policies</td>
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<td></td>
<td>2) Ensure and assist divisions, operating units, and functions</td>
<td>2) Focus on risk, control activities, communication, and monitoring</td>
<td>2) Use the procedures</td>
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<tr>
<td></td>
<td>3) Monitor high risk areas</td>
<td></td>
<td>3) Take the trainings</td>
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CONSIDERATIONS WHEN EVALUATING INTERNAL CONTROLS

- Too many controls can result in inefficient operations.
- Strength of controls should be balanced with the relative risk.
- The benefits of controls should outweigh the costs.
# INTERNAL CONTROLS

## INSTITUTIONAL IMPLEMENTATION

<table>
<thead>
<tr>
<th>University of Washington</th>
<th>University of California</th>
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<tbody>
<tr>
<td>+ The State of Washington (with governance over the University System) has defined internal controls in the <a href="https://example.com">State Administrative &amp; Accounting Manual (SAAM)</a> and links administrative and accounting policies back to the COSO framework.</td>
<td>+ The UC Office of the President emphasizes Internal Controls as part of Ethics, Compliance and Audit Services.</td>
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<tr>
<td></td>
<td>+ UCOP acknowledges that although requirements for controls apply to the entire University, small and mid-size departments may implement them differently than large ones.</td>
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<tr>
<td></td>
<td>+ Controls may be less formal and less structured, and still effective.</td>
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## DESIGNING & DEVELOPING INTERNAL CONTROLS
Make COSO and the “7 Elements” Work for You

• Compliance = “A collection of control activities”

Internal Controls in Action: The UT Tyler Compliance Approach

Design and Development

1 Environment & Risk Assessment

• Identify what it is you are supposed to comply with!
  – 36 areas of compliance in higher education
  – Units / departments with the greatest funding
    • Do they pose the largest liability?
  – Consider the current domestic and international environment
  – Given recent events, EH&S is now a higher risk for almost everyone
• Assess each of these risks to your organization
• Conduct a Cost-Benefit Analysis

2 Ibid.
DESIGN AND DEVELOPMENT

2 Compliance Organization

Governance
- There is a governing Board or equivalent that is responsible for engaging the auditor, receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed, and they fulfill those responsibilities.

Structure & Reporting Lines
- Key managers have been given responsibility to identify and communicate changes.
- Employees who require close supervision (e.g., they are inexperienced) are identified.
- Management has identified and assessed complex operations, programs, or projects.
- Management prohibits intervention or overriding established controls.

Personnel Management, Expectation and Oversight
- Key managers must have adequate knowledge and experience to discharge their responsibilities.
- Supervision of employees is commensurate with their level of competence.
- Documentation measures established by managers in authority positions.

Staff Ability and Competency
- Management's commitment to competence ensures that staff receive adequate training to perform their duties (see below).
- Staff are knowledgeable about compliance requirements and are given responsibility to communicate all instances of noncompliance to management.

3 Ibid.

3 Standards, Policies & Procedures

Policies and procedures are in place to implement changes in statutes, regulations, and the terms and conditions affecting Federal awards.

Including:
- Up to date with law, federal requirements, etc.
- Incorporate roles and responsibilities
- Appropriately detailed – Goldilocks Zone!
- Clearly written – and communicated (see next slide)

4 Ibid.
Operating standards, policies, and procedures exist and are clearly written and communicated, including adequate training.

- All employees and agents of an organization, from Board members down to third-party contractors, must know what is required of them via policy and procedure and, if necessary, be trained on the specific elements of compliance that affect them.

Tools and approaches:

- Training
- Workshops
- Websites, Email, Posters, etc.

“It is not enough to create a good compliance program on paper; the company must carry through to implement the program with effective accountability.”

- Federal Energy Regulatory Commission’s Policy Statement on Compliance

Tools and approaches:

- Annual Plans / Action Plans
- Brown Bags, Giveaways, Contests
- Enforcement mechanisms
DESIGN AND DEVELOPMENT

6  Monitoring, Auditing & Reporting

• **Monitor**: The self-assessment of compliance readiness by the individual operating entity
• **Audit**: Internal or external function to conduct audits of the overall compliance and ethics program effectiveness or of specific activities
• **Report**: Results need to be reported to appropriate leaders and/or regulators

**Internal Control “Musts”**:  
• Anonymous reporting hotline  
• Compliance audits and reviews  
• Reporting boards and executives

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7  Continuous Improvement

• **Requirement**: The FSG require modifications be made to compliance internal controls when something goes wrong.
• **Solution**: Provide tools and resources to operational managers and staff to make their operations incrementally better.

**Example Tools and Resources**:  
• Plan – Do – Check – Act (Deming Cycle)  
• Kaizen Continuous Improvement  
• Agile Process Improvement
What is your institution’s culture of compliance?

- Does your institution prioritize compliance, along with (as much as?) operational efficiencies and other priorities such as customer service?
  - Resources
  - Funding
  - Staffing (FTE)
  - Support and endorsement

Talk the talk and walk the talk

Ibid.
TAKING ACTION & GETTING STARTED

INVENTORY EXISTING CONTROLS

Start Small: Do controls exist for each of the 39 areas of higher education compliance?

What are your gaps?

- Academic Programs
- Accounting
- Accreditation
- Admissions
- Athletics
- Auxiliary Services
- Campus Safety
- Contracts & Procurement
- Recruitment Hiring & Termination
- Copyright & Trademark
- Disabilities
- Discrimination
- Diversity/Affirmative Action
- Environmental Health and Safety
- Ethics
- Export Controls
- Financial Aid
- Fundraising & Development
- Governance
- Grants Management
- Health Care and Insurance
- Housing
- Human Resources
- Immigration
- Information Technology
- Intellectual Property and Technology Transfer
- International Activities and Programs
- Lobbying and Political Activities
- Privacy & Information Security
- Program Integrity Rules
- Recruitment Hiring & Termination
- Research
- Retirement
- Sexual Misconduct
- Tax
- Unions
- Wages

TAKING ACTION & GETTING STARTED

EVALUATE EXISTING CONTROLS

Are existing controls:

- Appropriately designed to meet the control objective?
- Implemented in a manner that allows the control to function as designed?
- Consistently deployed?
- Balanced against the level of risk?

Use the Tools Available to You: COSO, the Green Book, Federal Sentencing Guidelines AND: the provided handout to assess your Compliance Program in “One-Page”
I think 10 is about right, considering timing and not wanting to overload.

Marisa Zuskar, 5/13/2020
TAKEING ACTION & GETTING STARTED
EVALUATE EXISTING CONTROLS

Cost  Service  Efficiency  Compliance

Are you striking the right balance? If not, what are the alternatives?

IN CLOSING....
TAKING ACTION & GETTING STARTED

IN CLOSING....

Environment and Risk Assessment

Standards, Policies, and Procedures

Implementation, Promotion, and Enforcement

Continuous Improvement

Culture of Compliance

Organization

Communication and Training

Monitoring, Auditing, and Reporting

Thank you

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