

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



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WELCOME

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Agenda

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

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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**

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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

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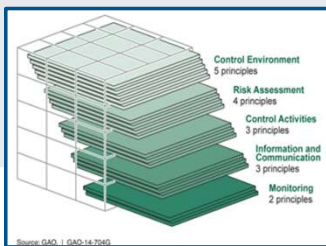
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INTERNAL CONTROLS

FEDERAL GUIDANCE & REFERENCE MATERIALS

The Green Book: Standards for Internal Control in the Federal Government

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

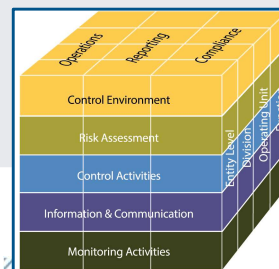


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COSO: Internal Control Integrated Framework

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



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INTERNAL CONTROLS

COSO FRONT FACE: ACTIVITIES OF INTERNAL CONTROL



Control Environment

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.



Risk Assessment

Institution's identification and analysis of risks relevant to achievement of its objectives, forming a **basis for determining how the risks should be managed.**



Control Activities

Policies and procedures that help ensure that management directives are carried out.



Information and Communication

Identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.



Monitoring Activities

Process that **assesses the quality of internal control performance** over time.

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INTERNAL CONTROLS

COSO SIDE FACE: WHERE THESE ACTIVITIES ARE IMPLEMENTED

Entity Level: Boards	Entity Level: Organization	Division	Operating Units and Functions
Boards must oversee: 1) Program and process , "Is the compliance function doing everything on the face of the cube?" 2) Monitoring high risk compliance areas , "Are we in compliance?"	Institutional compliance function: 1) Design and implement everything on the face of the cube organization-wide 2) Ensure and assist divisions, operating units, and functions 3) Monitor high risk areas	Subject-specific compliance functions: 1) Design and implement everything on the face of the cube in their area, such as HR, Safety, and Privacy 2) Focus on risk, control activities , communication, and monitoring	Compliance consumers: 1) Follow the policies 2) Use the procedures 3) Take the trainings 4) Read the communications 5) Monitor their areas 6) Use the hotline

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INTERNAL CONTROLS

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.

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INTERNAL CONTROLS

INSTITUTIONAL IMPLEMENTATION

University of Washington

- + The State of Washington (with governance over the University System) has defined internal controls in the [State Administrative & Accounting Manual \(SAAM\)](#) and links administrative and accounting policies back to the COSO framework.

University of California

- + The UC Office of the President emphasizes Internal Controls as part of [Ethics, Compliance and Audit Services](#).
- + UCOP acknowledges that although requirements for controls apply to the entire University, small and mid-size departments may implement them differently than large ones.
- + Controls may be less formal and less structured, and still effective.

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DESIGNING & DEVELOPING INTERNAL CONTROLS

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DESIGN & DEVELOPMENT

"7 ELEMENTS" FROM THE FEDERAL SENTENCING GUIDELINES

- + Make COSO and the "7 Elements" Work for You
- + Compliance = "A collection of control activities"

Internal Controls in Action: The UT Tyler Compliance Approach



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DESIGN AND DEVELOPMENT

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Environment & Risk Assessment ²

- 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.

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DESIGN AND DEVELOPMENT

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Compliance Organization ³

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.

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DESIGN AND DEVELOPMENT

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Standards, Policies & Procedures ⁴

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.

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DESIGN AND DEVELOPMENT

4 Communication & Training ⁵

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.

⁵ Ibid.

DESIGN AND DEVELOPMENT

5 Implementation, Promotion, Enforcement ⁶

“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

⁶ Ibid.

DESIGN AND DEVELOPMENT

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Monitoring, Auditing & Reporting ⁷

- **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

⁷ Ibid.

DESIGN AND DEVELOPMENT

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Continuous Improvement ⁸

- **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

⁸ Ibid.

DESIGN AND DEVELOPMENT

8 Leadership and Culture ⁹

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

⁹ Ibid.

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TAKING ACTION & GETTING STARTED

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

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"

Slide 23

MZ3

I think 10 is about right, considering timing and not wanting to overload.

Marisa Zuskar, 5/13/2020

TAKING ACTION & GETTING STARTED

EVALUATE EXISTING CONTROLS



Cost



Service



Efficiency



Compliance

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

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IN CLOSING....

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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

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THANK YOU

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