Internal Controls and Compliance Why they Matter!

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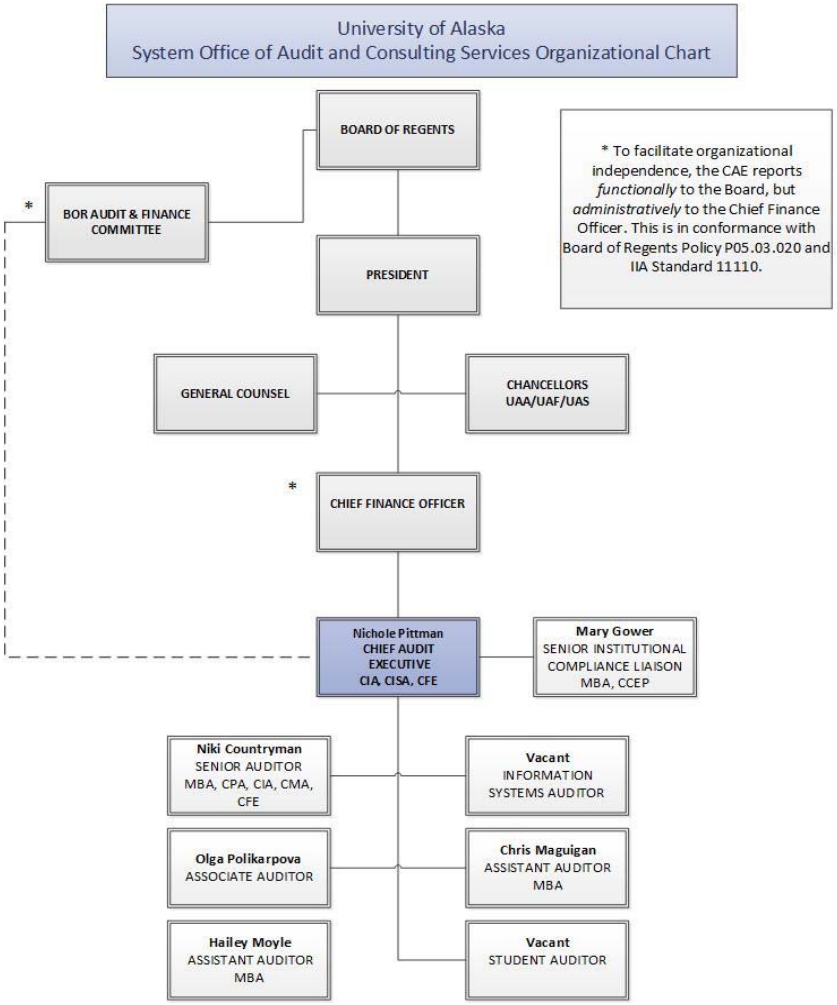

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Learning Objectives

- Identify the seven elements of an effective compliance framework
- Understand the purpose, value and key components of internal controls
- Review some examples of risk management failures
- Learn where to obtain assistance on internal controls and compliance management

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Internal Controls vs Compliance

Office Attributes	Internal Audit	Compliance
Mission Statement	To provide independent, objective assurance and consulting activity designed to: • add value • improve operations Serves to help the university accomplish its missions by bringing a systematic, disciplined approach to evaluate and improve effectiveness of • Risk management • Control • Governance process	To promote and support a culture which builds compliance and ethics consciousness into the daily activities of the University. Assists the university accomplish its mission by: • coordinating compliance activities • ensuring the institutional compliance perspective is always present • assessing existing programs against best practices for effective compliance programs • providing guidance for improvements
When to seek Assistance	You have questions on: • Internal controls/segregation of duties • How to minimize fraud risks • Would like a consulting review	You have questions on: • Federal compliance program requirements • Policies and procedures • Emerging compliance issues • Education and training

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Institutional Compliance Program

An institutional compliance program enables university members to better manage operations and risks for which they are individually and collectively responsible for by:

- Coordinating the university's compliance assurance activities
- Supporting compliance efforts
- Ensuring senior leadership and the Board of Regents are apprised of their responsibilities with regards to compliance
- Keeping an institutional perspective
- Looking to best practices at other institutions
- Helping departments be apprised of emerging compliance issues

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Higher Education Compliance Areas

Financial

- Collecting tuition
- Capital projects
- Procurement
- Tax
- Investments
- Financial aid
- Debt management
- Cost allowance
- Internal controls
- Grant and contract accounting
- Cash management
- Payroll and benefits
- Insurance
- Gifts and contracts
- Ethics

Research

- Human subjects
- Animal subjects
- Export controls
- Research integrity
- Conflict of interest
- Hazardous materials
- Radiation safety
- Biosafety
- Chemical safety
- Industrial safety
- Scientific diving and small boat safety

Health & safety

- Employee health
- Student health
- Violence and suicide prevention
- Construction safety
- Emergency management
- Safety of minors
- Public safety
- Environmental contamination
- Building / grounds maintenance
- Housing and food

Civil rights and employment

- Disability access and accommodation
- Workers compensation
- Labor relations
- Wage and hour
- Family and medical leave
- Recruitment and hiring
- Equal opportunity and affirmative action
- Sexual misconduct
- Non-discrimination
- Cultural resources

Information

- Public records
- Privacy of data
- Security of data
- Copyright and trademark
- Intellectual property
- Information technology
- Internet of Things (IoT)

Athletics

International

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BAY AREA // SCHOOLS

Feds slap UC Berkeley with $2.35 million fine for failing to disclose campus crimes properly

Record Fine for Underrepo

Education Department fines Michigan State $4.5 million for failing to report sexu
includi of hundreds of women by former team doctor. The penalties signal
tough federal disclosure laws.

Bible College Convicted in $35M Fraud Scheme

The money laundering case left a Christian media network out of business and Olivet University owing $1.25 million.

Jury hears of 'sprawling' U.S. college admissions fraud scheme as first trial underway

University of Kansas professor fac 20 years in federal prison after he is convicted of hiding his ties to the nt while working on

United States Joins Lawsuit against AECOM Alleging False Claims in Connection with Hurricane Disaster Relief

Xavier University of Louisiana Agrees to Pay $12 Million to Resolve Related Allegations

https://www.insidehighered.com/news/2019/09/06/education-department-fines-michigan-state-45-million-not-reporting-nassar-crimes#:~:text=Michigan%20State%20University%20will%20pay,former%20team%20doctor%20Larry%20Nassar.
https://www.sfchronicle.com/education/article/Feds-slap-UC-Berkeley-with-2-35-million-fine-for-15561248.php
https://www.christianitytoday.com/news/2020/february/ex-christian-post-publisher-cmc-ibt-olivet-fraud-scheme.html
https://www.justice.gov/opa/pr/united-states-joins-lawsuit-against-aecom-alleging-false-claims-connection-hurricane-disaster
https://www.reuters.com/world/us/first-trial-us-college-admission-scandal-begin-2021-09-13/

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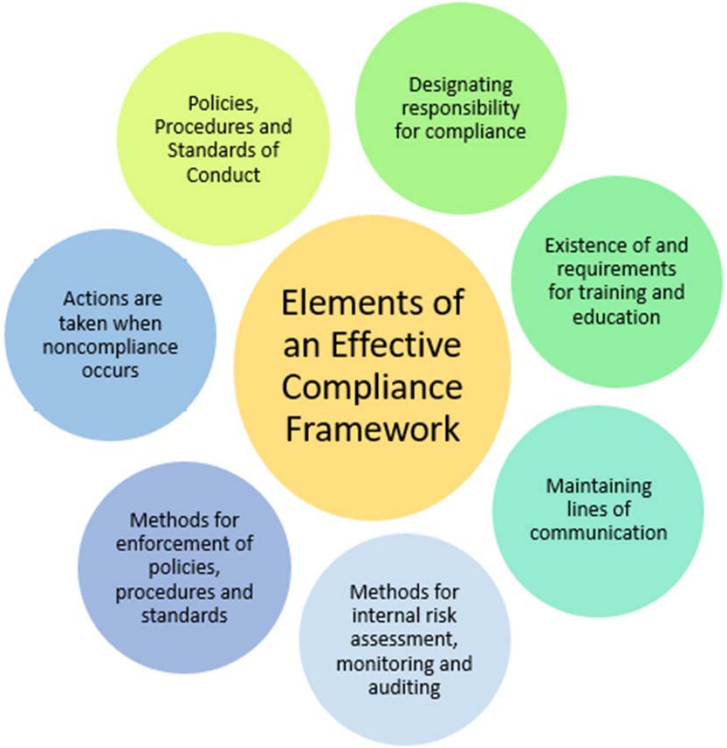
ELEMENTS OF AN EFFECTIVE COMPLIANCE FRAMEWORK:

Existence of policies, procedures, and standards of conduct. The cornerstone of a compliance program is to ensure that behavior and decision-making expectations are articulated, clearly communicated and that practical guidance is available and accessible. Actively follow and support current standards and procedures to prevent and detect criminal conduct and facilitate compliance. All UA employees, full or part-time, are subject to the Executive Branch Ethics Act (EBEA) and its implementing regulations published by the Department of Law.

Designating responsibility for compliance. The Board of Regents and UA senior leadership will be knowledgeable about the content and operation of the UA's compliance program. UA's leadership at all levels will demonstrate a strong commitment to compliant business, research and academic operations at the university. Successfully compliant and ethical university operations depend on the individual commitment of every university community member. As compliance requirements permeate all university programs, institutional compliance depends on a unique level of personal accountability and responsibility at all levels of the university.

Existence of and requirements for training and education. Provide appropriate, relevant, and comprehensive education and outreach about compliance requirements. Each institution and appropriate department should take reasonable steps to periodically communicate its standards and procedures by conducting effective training programs and otherwise disseminating information appropriate to individual roles and responsibilities.

Source: Federal Requirements of an Effective Compliance and Ethics Program (see § 8B2.1)



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ELEMENTS OF AN EFFECTIVE COMPLIANCE FRAMEWORK: (Continued)

Maintaining lines of communication. University leadership will facilitate and support communication at each university about the university's compliance program, its purpose and their responsibilities so that UA community members understand and can also fulfill their compliance duties. Reasonable steps will be taken to communicate standards, procedures and roles to members of the institution, including the Board of Regents, to foster a compliance consciousness. Employees are encouraged to report, either directly or anonymously, any concerns and or seek guidance regarding potential or actual misconduct without fear of retaliation.

Methods for internal risk assessment, monitoring and auditing. Continuous monitoring is done by departmental managers to detect their unit's compliance risk issues and compliance requirement adherence associated with the university's operations. Reasonable steps will be taken to conduct compliance risk assessments to determine how well UA's business processes fulfill current/changing rules, regulations, or Board of Regents policies.

Methods for enforcement of policies, procedures, and standards. Ensure there are clear avenues to seek guidance or report violations of policy and relevant laws/regulations. The university will follow appropriate processes, conduct investigations, enforce standards and emphasize non-retaliation.

Actions are taken when noncompliance occurs (consistently and commensurate with the noncompliance). The university responds appropriately to investigate and address episodes of misconduct and violations of laws, regulations and policies. Steps are taken to prevent further similar conduct from occurring in the future.

Source: Federal Requirements of an Effective Compliance and Ethics Program (see § 8B2.1)

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Institutional Compliance Based on Federal Guidance

Is the Corporation's Compliance Program Well Designed?

- Risk Assessment
- Policies and Procedures
- Training and Communications
- Confidential Reporting Structure and Investigation Process
- Third Party Management
- Mergers & Acquisitions

Is the Corporation's Compliance Program Being Implemented Effectively?

- Commitment by Senior and Middle Management
- Autonomy of Compliance Officer and Resources
- Incentives and Disciplinary Measures

Does the Corporation's Compliance Program Work in Practice?

- Continuous Improvement, Periodic Testing, and Review
- Investigation of Misconduct
- Analysis and Remediation of Any Underlying Misconduct

Source: U.S. Department of Justice Criminal Division Evaluation of Corporate Compliance Programs

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What are Internal Controls

Internal Controls help us manage risk.

We can break Risk Management down into 5 steps

1. What are we in business to do? (The Mission)
2. What are the things we do to carry out our business? (The Activities)
3. What are the bad things that could happen (or not happen) to keep us from being successful? (The Risks)
4. Which of the bad things do we think are the biggest deal and the most likely to occur? (Risk Assessment)
5. What can we proactively do to reduce the chance that these bad things will happen and increase our chances of success? (Risk Management)

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The Institute of Internal Auditors' "Three Lines of Defense"

Coordination of risk management and control activities to ensure the optimal deployment of organizational resources

1st Line of Defense Risk Owners	2nd Line of Defense Risk Control and Compliance Oversight	3rd Line of Defense Risk Assurance

• Operating Management
  • Management Controls
  • Internal Control Measures
	• Financial Controller
	• Information Security
	• Risk Management
	• Compliance
		• Internal Audit

External Audit

Regulator

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Objectives of Internal Controls

1. Safeguard the assets of a company.
   - Prevent and detect fraud and error.
2. Ensure orderly and efficient conduct of business, including following its internal policies.
3. Ensure the accuracy and completeness of internal accounting records.
   - Ensure timely and accurate preparation of financial information.
   - Ensure the high quality of both internal and external reporting.
4. Ensure compliance with applicable laws and regulations

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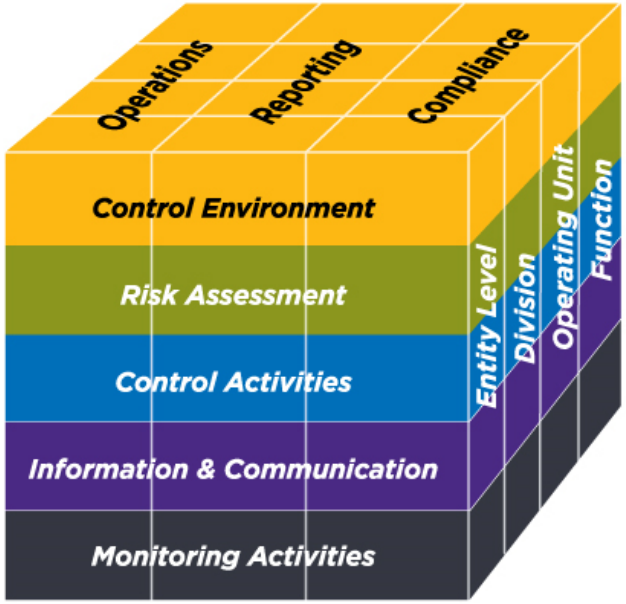
Internal Control Frameworks

Common Frameworks:

- **COSO** Internal Control-Integrated Framework
  - Five components
  - 17 Principles
- Standards for Internal Control in the U.S. Federal Government (aka "the **Green Book**")
- Control Objectives for Information and Related Technology **(COBIT)**



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1. Control Environment (CE)

What this means:	***What this looks like at UA:***

• Setting the **"Tone at the Top"**
• Demonstration of University Commitment to:
  • Competence
  • Establishing oversight
  • Strong organizational structure
  • Responsibility and accountability
  • Development and management of personnel
• Board of Regents
  • Independence from management
  • Oversight of internal control
	• *Three Lines of Defense*:
	  (1st) Individual schools and colleges, departments such as grants and contracts and HR
	  (2nd) Controller's Office
	  OIT
	  (3rd) Audit department with independent reporting
	• Training
	• Personnel evaluations
	• UA Confidential Hotline
	• Board of Regents Bylaws
	  Regents' Policies

Perception is reality

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Procurement Fraud

Yale University School of Medicine employee sentenced after stealing $40M in electronics from school

- Starting in 2013 through 2020, Yale employee ordered millions in electronics
- Part of job was to make and authorize purchases under $10,000
- Shipped to out of state business
- Received kickbacks

IRS.gov Oct. 13. 2022

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Control Environment – Procurement

Red flags:

- Control over authorizing, recording, and custody of assets
- Reasonableness/necessity of purchases (is the business justification sufficient?)
- Purchases shipped to out- of- state business

Internal Controls:

Preventative

- Segregation of duties (CE)
  - Custody to assets
  - Authorization
  - Recording
- Procurement policies (CE)

Detective

- Budget review
- Trend analysis

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2. Risk Assessment (RA)

What this means:

- Organizational goals, measures, and objectives are communicated
- Identification of risks to meeting goals, measures, and objectives
- Identification of potential errors or anomalies
- Understanding a process from start to finish
- Understanding risk drivers and current mitigation strategies
- Ability to assess and prioritize risk by impact and likelihood

What this looks like at UA:

- Communication of goals, measures, and objectives by the President, Chancellors, Deans and Provosts
- Departmental risk assessments
- System Office of Risk Services and Risk Managers at each university
- Enterprise risk management process with reporting to the Board of Regents
- Risk-based internal audits

What will prevent the achievement of key objectives?

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3. Control Activities(CA)

What this means:	***What this looks like at UA:***

• Identification of controls to address risks
  • Top 10 internal control tips
  • IT general controls
• Management is responsible for design and development of:
  • Oversight systems and delegations of authority
  • Policies that communicate expectations
  • Procedures that implement the policies
	• Regents' Policies
	• University Regulation
	• University-specific procedures
	• Training related to job responsibilities
	• Internal Audit provides assurance that controls are operating effectively

Export Control - Disclosures

Former Texas A&M professor pleads guilty to making false statements on China ties

- Engineering professor working on NASA projects
- Failed to disclose ties and collaboration with a Chinese university in violation of grant agreement
- Charged 9 counts of defrauding government and two counts false statements
- Made to repay $86,876 for funds awarded for work on International Space Station
- Violation of Export Administration Regulations

Science Insider 22 Sep 2022 By Jaun A. Lozano

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Control Activities – Export Controls

Red flags:

- Funding sources (“free” lab space)
- Lavish lifestyle
- Undisclosed collaboration on publications with foreign entities
- Access by unauthorized/prohibited individuals to research material or labs

Internal Controls:

Preventative

- Background checks
- Ask if the researcher has been approached by any foreign government or signed any agreement. (e.g. foreign talent plan)
- Annual completion of outside activities disclosures
  - Discuss this requirement with your unit and provide scenarios applicable to your unit
- Review of **publications for authenticity and types of funding and sponsoring organizations (e.g., foreign governments)
- Who has access to research materials
  - Who sits on thesis committee
  - Who is faculty advisor of a graduate student

Detective

- Travel (destination, funding source, university business?)
- **Publications
- Funding sources (“free” lab space)

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4. Information & Communication (IC)

What this means:

- *How are we doing*? As determined by:
  - Gathering and communicating *relevant information* to support internal control functionality
- Up/down flow of information related to internal controls functionality and effectiveness
- Internal communication of internal control responsibilities
- External communication regarding noncompliance or weak internal controls
- Communication and reporting channels to learn about *fraud or ethical misconduct*

What this looks like at UA:

- Mechanisms for tracking deadlines
- Effort certification reports
- YTD reports/budget to actual expense reporting
- Training related to job responsibilities
- Notification of noncompliance to agencies and external auditors, when applicable
- UA Confidential Hotline

Maintaining the ability to trust, but verify

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5. Monitoring Activities (MA)

What this means:

- Spot checking for compliance
- Reporting internal control deficiencies timely
  - Senior management
  - Board
- Corrective action determined
- Periodically evaluate the design of controls against federal standards (e.g., IRS, Uniform Guidance)
- Risk assessments

What this looks like at UA:

- Review by fiscal staff, supervisors, grants and contract technicians (*1st Line of Defense*)
- Internal audits (*3rd Line of Defense*)
  - -Holistic evaluation of processes and controls
  - -Reporting to Board
  - -Action plans required
  - -Accountability for action plans required
  - -Follow-up auditing
  - -Continuous controls auditing

Mail Fraud Scheme

- Accounting manager USF University Medical Services Association
- Oversaw university procurement credit cards
- Made fraudulent payments of over $12.75 million from June 2014 through November 2019 using university cards
- Made false journal entries to disguise expenditures as legitimate business expenses
- Sentenced to 10 years plus must pay restitution

DOJ, Sept 27, 2022

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Monitoring Activities – Mail Fraud Scheme

Red flags:

- Lack of segregation of duties
  - Able to authorize purchases
  - Access to financial software to disguise purchases
  - Access to assets (credit cards)
- Lack of monitoring by supervisor

Internal Controls:

Preventative controls:

- Same person who authorizes expenditures does not record transactions
- Budget monitoring

Detective controls

- Spot checks to review supporting documentation
- Trend analysis –Fraudsters often get greedy

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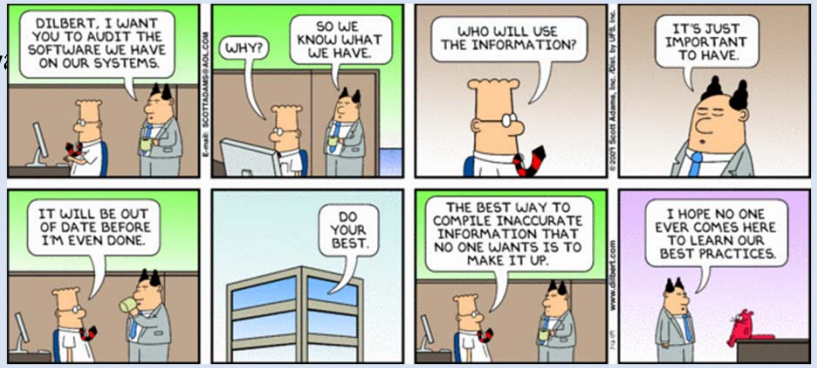
Top 10 Internal Control Tips

1. **Maintain the "Tone at the Top" (CE)**
   1. Walk the walk
   2. Keep clear boundaries
   3. Seek guidance for unusual situations
2. **Protect cash and other valuable assets (CA)**
   1. Includes sensitive information
   2. Conduct surprise counts and reviews
   3. Mechanisms to document monitoring
3. **Use the tools available (RA, IC, MA)**
   1. Queries and reports for monitoring
   2. Review logs and other mechanisms used for controls and approva
   3. Risk assessments and results
4. **Maintain policies and procedures (CA)**
   1. Communicate expectations
   2. Minimize errors
   3. Promote and maintain consistency
   4. Serve as training aids
5. **Protect University equipment (CA)**
   1. Do not open electronic attachments unless you trust the sender
   2. Limit use of electronic devices to business only
   3. Educate employees on basic information security practices
   4. Communicate to employees the expectations for no personal use of University equipment
   5. Conduct inventories



Top 10 Internal Control Tips

6. Separation of duties (CE, CA)

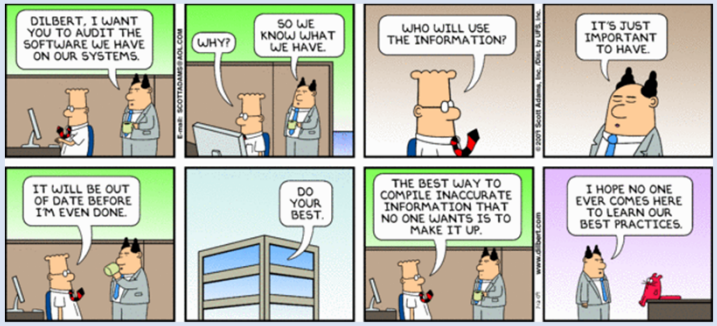
1. Limit the ability for one person to perform all parts of a function or transaction
2. More than one person for approval, recording, and custody of assets
3. No approval of own expenditures

7. Documentation! (CA)

1. Support for transactions and critical decisions
2. Unusual situations
3. Employee issues

8. Prevent and detect fraud (CE, IC)

1. Be open to hearing problems
2. Beware of potential retaliatory behavior, by you or others
3. Trust your instincts and ask for guidance



9. Protect your password (CA)

1. Do not share or write it down
2. Use a strong password or passphrase

10. Know what your signature means (CE, CA)

1. Read before you sign
2. Understand the implication of your signature
3. Do not sign blank forms
4. Do not permit others to sign for you without a formal delegation of authority

In Conclusion

Risks prevent us from achieving operational objectives.
Internal Controls provide reasonable assurance to increase the odds!

5 Simple things you can do that will increase internal controls in your area of responsibility

1. Never let one person have complete control of a process.
2. Follow your intuition. Ask a question if something seems “off”.
3. Don’t sign something you don’t understand.
4. Make sure reconciliations are being done and reviewed by someone other than the reconciler.
5. Consider the example that you are sending to other people.

M. Kevin Robinson, CIA, CFE, Office of Audit, compliance & Privacy

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Internal Control and Compliance Resources

- UA System Office of Audit and Consulting Services
  - www.alaska.edu/audit
- Case in Point: Auburn University – Lessons for the Proactive Manager
  - https://www.auburn.edu/administration/oacp/CaseinPoint.php
- The Committee of Sponsoring Organizations (COSO)
  - www.coso.org
- General Accountability Office
  - www.gao.gov/greenbook
- Federal Requirements of an Effective Compliance and Ethics Program
  - https://guidelines.ussc.gov/gl/%C2%A78B2.1
- U.S. Department of Justice Criminal Division's Evaluation of Corporate Compliance Programs
  - https://www.justice.gov/criminal-fraud/page/file/937501/download
- Higher Education Compliance Alliance Matrix
  - https://www.higheredcompliance.org/compliance-matrix/

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UA Confidential Hotline

Hosted by NAVEX Global "EthicsPoint"

- EthicsPoint is used by hundreds of higher education institutions
- Third-party hosted to provide the best option for anonymity
- Available via toll-free telephone and web intake
- Different types of issues/concerns can be reported:
  - Financial: fraud, waste, abuse
  - Ethical misconduct
  - Safety and environmental
  - Compliance
  - Human resources (i.e.: bullying)
  - Protection of minors

UA Confidential HOTLINE Make the Right Call www.alaska.ethicspoint.com

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Thank you for Attending!

For more information, contact:

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Tell us more!

1. How did we do and how we can improve?
2. Would you like us to offer an interactive Part 2 of this session?
3. What would you like to know more about?

Please click the Survey link in the Chat box

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