2018 ADMINISTRATION AND FINANCE CONFERENCE

Risk and Internal Controls

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Setting the stage for Risk Awareness…

Favorite Salim Alani Saying?

A. Everything comes down to People, Process, and Technology

B. There is no sense in trying to boil the ocean

C. Let's not throw the baby out with the bath water

D. It is truly a privilege to be audited by the Office of University Audit

What is *Risk*?

A. *A* strategy board game of diplomacy, conflict and conquest for two to six players played on a board depicting a political map of the earth, divided into forty-two territories.

B. Is *ANYTHING* that could jeopardize the achievement of the organization's objectives.

C. Running with scissors.

All answers are actually correct!!!!
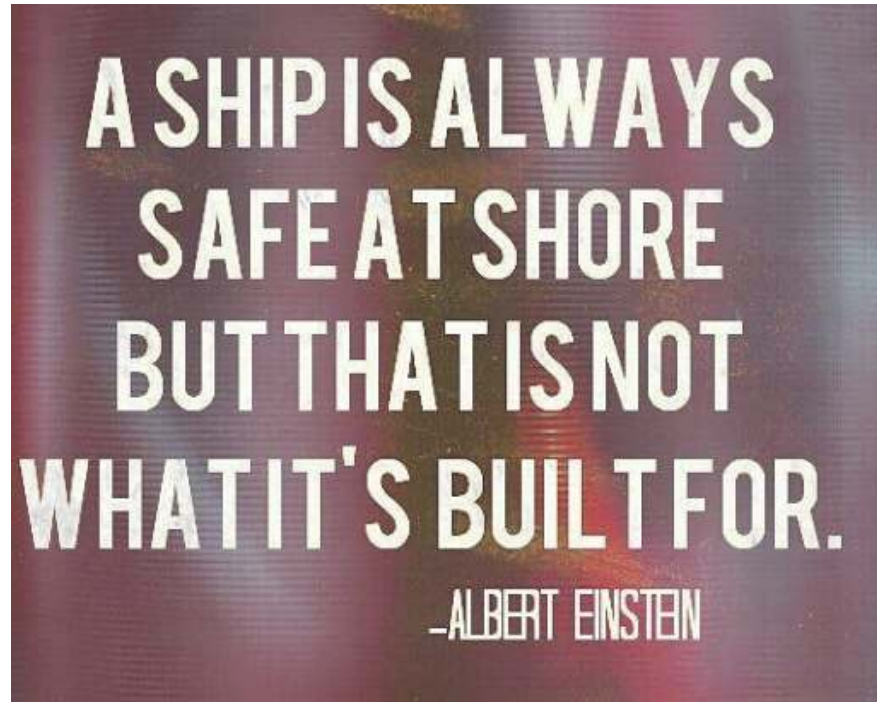
Risk and Internal Controls

What is "Risk"?

…is *__ANYTHING__* that could jeopardize the achievement of the organization's objectives.

Risk and Internal Controls

Risk is an inherent and unavoidable aspect of the University of Rochester's missions, operations, and objectives...

A SHIP IS ALWAYS SAFE AT SHORE BUT THAT IS NOT WHAT IT'S BUILT FOR.
—ALBERT EINSTEIN

...Risk is therefore an inherent and unavoidable aspect of your position, role, and day-to-day work activities.

How are Risks Managed?

A. Acceptance or Reduction only

B. Avoidance, Acceptance, Transfer or Reduction

C. Having trusted employees and management

D. By Internal Audit

Risk and Internal Controls

Although Internal Audit has a role to play in evaluating how well risks are managed….

….Internal Audit does not own or manage risk

Risk and Internal Controls

How are Risks Managed?

Risk and Internal Controls

What is a true statement about Internal Controls?

A. They are an organization's methods, systems and procedures for protecting resources, ensuring compliance, and producing reliable financial statements.

B. They are processes, effected by an entity's board of directors, management and other personnel, designed to provide complete assurance of the achievement of objectives.

C. Both A and B.

Risk and Internal Controls

Internal Controls are an organization's methods, systems and procedures for:

- Protecting resources from waste, loss, theft or misuse

- Ensuring that resources are used in accordance with law, business and donor intent

- Producing reliable financial statements based on accurate and verifiable data

Internal controls are processes, effected by an entity's board of directors, management and other personnel, designed to provide *reasonable assurance* of the achievement of objectives.

Risk and Internal Controls
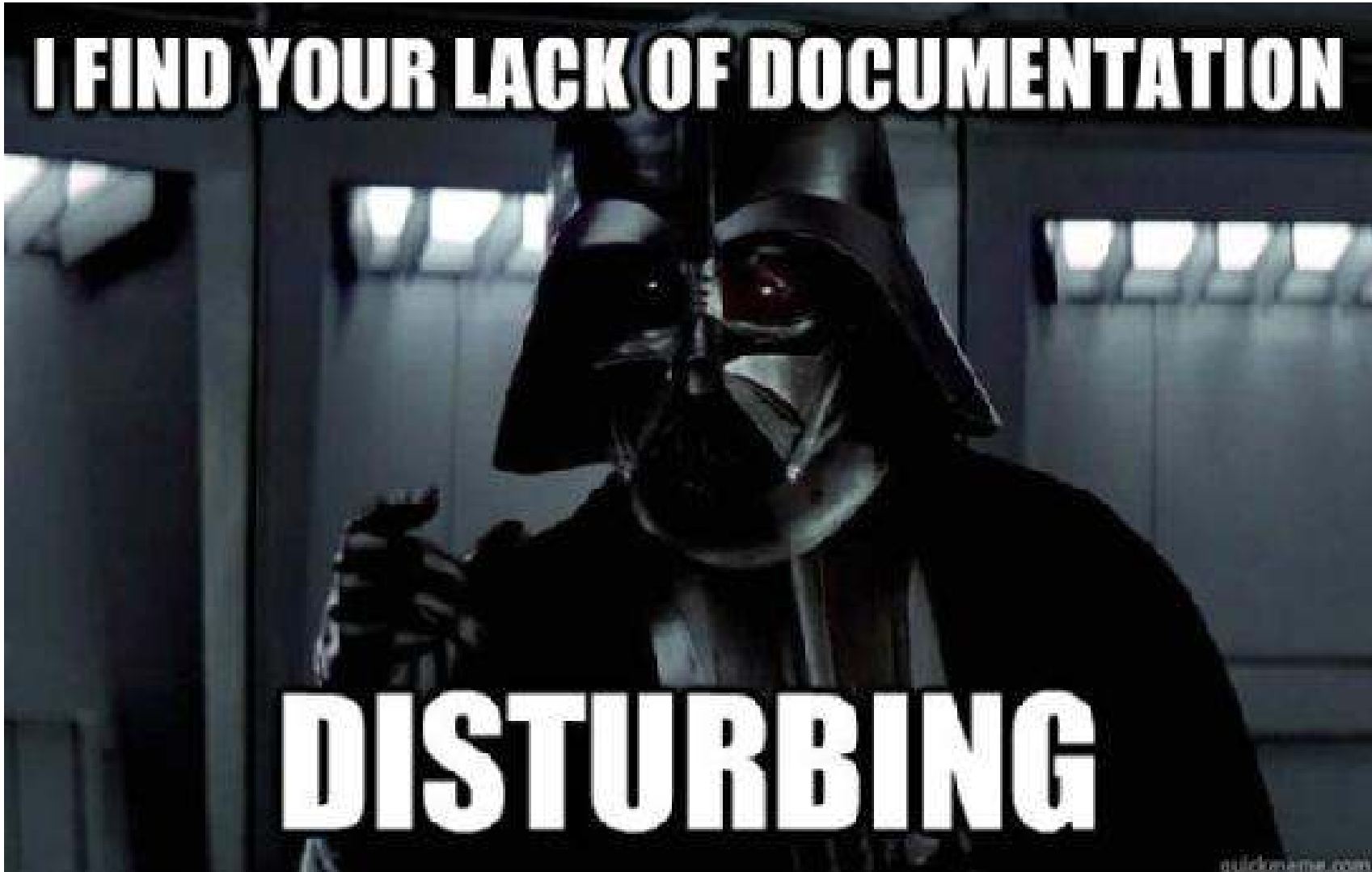
Which statement is true regarding Internal Controls?

A. Internal Controls can only be *preventive*

B. Internal Controls can be *preventive* or *detective*

C. Internal Controls must always be supported by a *computer system*

D. Internal Controls cannot be based on *paper* and *manual processes*

Risk and Internal Controls

Controls can be *Preventive* (preferable) or *Detective*:

- *Preventive*: Controls that **prevent or reduce the likelihood** of problems from occurring
  - ➢ Authorization / Approvals
  - ➢ Segregation of duties
  - ➢ Management oversight
  - ➢ System access controls (passwords)
  - ➢ Physical access controls

- *Detective:* Controls that **identify** or **uncover** a problem
  - ➢ Account reconciliation and review
  - ➢ Budget vs actual analyses
  - ➢ Effective monitoring
  - ➢ Exception reports
  - ➢ Complaints / tips / hot-line calls
  - ➢ Job rotations

Preventive controls prevent or reduce likelihood.

"An ounce of prevention is worth a pound of cure"

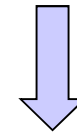**Detective controls reduce impact.**

Risk and Internal Controls

Controls can be **Automated** (preferable) or **Manual**:

- **Automated:**
  - System ID's and Passwords
  - Electronic approval routing
  - Data validation checks
  - Batch control totals
  - System three way match (PO / Invoice / Receiving)

- **Manual:**
  - Standardized hard copy paper forms and processes
  - FAO reconciliations and reviews
  - Approval signatures
  - Information verification

Automated controls are supported by computer systems.

⬇

To ensure that computer systems continue to work properly, general IT controls must be in place.

Thanks for your participation!