How to Work with Internal Audit to Utilize Enterprise Risk Management in a Research Environment

April 18, 2012
Session Objectives

• Explore how to apply the concept of “risk” in the context of research operations.
• Learn how “modern” internal auditors REALLY are “here to help.”
• Understand the risk assessment process and its practical applications.
• Become familiar with a process for identifying, prioritizing and addressing risks.
Risk and the Research Environment
Need for Risk Management in Research Institutions

• Research Institutions are constantly facing new and ongoing risks.
• Some potential risk situations unique to Research Institutions include:
  - A data breach leading to exposure of personally identifiable information of research subjects.
  - Personal injury to a student while working in a research laboratory.
  - Damage to research records from a flood or fire.
  - Research funding lost due to instances of noncompliance.
  - Reputational damage in the case of fraudulent activity.
Defining Risk Management

Risk management can be used as a management tool, incorporating the general control structure to form the basis for assessing and managing organizational risks.

Risk management should:

- Assist organizations in identifying and managing risks within their risk appetite.
- Be aligned with organizational objectives in order to assist in meeting strategic goals.

Source: COSO, *Enterprise Risk Management – An Integrated Framework*
Opportunities for Improvements in Risk Management

• Risk management at Research Institutions is often subject to the following common obstacles:
  - Incomplete understanding of the institution’s current profile.
  - Overly risk averse culture.
  - Culture of crisis management rather than proactive risk management.
  - Inconsistent approach to identifying, analyzing and responding to risks across business lines and functional areas.
  - Fragmented approach to managing enterprise-wide risks.
  - Inconsistent use of risk management factors during strategic decision-making.
  - Informal usage of risk monitoring and reporting tools, limiting the ability to effectively plan for and manage risk long term.

Source: Knowledge Congress Presentation on ERM
Risk Management Processes

• Risk management (beyond purchasing insurance) is an emerging, developing concept being utilized in organizations of all sizes and complexities. Because of its dynamic nature, research institutions can practically implement components and concepts of risk management.

• At its core, risk management consists of:
  - Identifying the risk universe (e.g., what are all the potential risks that could affect your institution?).
  - Prioritizing the identified risks (e.g., determining which risks pose the greatest threats to organizational goals and objectives).
  - Developing a risk mitigation plan (e.g., determining how to respond to the identified risks).

Source: Knowledge Congress Presentation on ERM
Internal Audit: Are They (We!) the Bad Guys?

• The “watchdogs” of the institution.
  - Internal audit horror stories?

Or...

• A critical business function whose role is to support and help the institution in achieving its strategic goals
• A forward-looking, consultative function that helps the institution to anticipate and manage its risks proactively
  - Internal audit success stories?
Beyond “Gotcha”: The Role of Internal Audit in Today’s Research Institution

- Tactical → Strategic
- Reactive → Proactive
- Backward looking → Forward looking
- Focused on accounting → Focused on the business
- Singular focus on compliance → An appropriate complement of risk-based and compliance-based auditing
- “Gotcha” → Helpful ally
How Internal Audit Can Have a Positive Impact

• At the Institution level
  - Provide a comprehensive view of risk throughout the institution.
  - Help management and administrators make the most of limited resources.
  - Provide proactive advice for strengthening processes and controls.

• At the Department level
  - Identify fraud, waste, or abuse in your group.
  - Help improve efficiency and compliance in your department.
  - Give you a voice to management.
  - Assist you to make difficult changes, such as implementing a new system.
Who Do They Think They Are?
Key Players in the Internal Audit Process

• Audit Committee
  - This Board of Trustees committee oversees the performance of the internal audit function, approves the annual audit plan, and reviews the audit results.

• Executive Leadership and Management
  - On a day-to-day basis, internal auditors report administratively to one or more members of the institution’s executive leadership, such as a chief financial officer. Internal audit should work collaboratively with management on annual audit planning, and should share audit results with management before reporting to the audit committee.

• Department
  - Each internal audit addresses the activities of one or more departments – either an academic area (such as biology) or a functional area (such as sponsored research).

• Process Owner
  - Internal auditors work with “process owners” to understand policies, procedures, and internal controls at a detailed level.
But What Do They Do? 
Examples of Common Internal Audit Engagements

• Financial Audits
  - Reviewing a list of expenses incurred by a Principal Investigator to assess allowability per OMB A-21.
• Compliance Audits
  - Reviewing the institution’s cost sharing policy for compliance with OMB A-21 and sponsor requirements.
• Operational Audits
  - Reviewing the operations of the procurement department to validate that cost effective and timely choices are being made
• Risk Assessments
  - Evaluating risks in a particular area of the medical school (or institution-wide) to identify areas of focus for audit testing (or the focus of the overall internal audit plan)
• Fraud Investigations
  - Examining an allegation of fraud made via the institutions anonymous whistleblower hotline
• What are other ways you have worked with internal audit?
Making the Most of Internal Audit: When to Ask for Help

• When you suspect fraud or misuse of resources.
• If you need to identify best practices and/or compare issues against the university’s peer group.
• When you suspect your internal controls are weak.
• If your operations aren’t as efficient as they could be.
Making the Most of Internal Audit: How to Best Leverage Internal Audit to Help Your Department

• Give details and specifics of the issue, including hard evidence if available.
• Be unbiased and objective; discuss the issue in terms of what’s best for the organization.
• Explain potential outcomes from the current situation, and what could happen if it continued unabated.
• Consider calling the anonymous hotline, especially if you worry about retribution.
Making the Most of Internal Audit:
How to Best Leverage Internal Audit to Help with Risk Management

• Internal Auditors can help you with risk management activities, including:
  • Bringing together key stakeholders
  • Facilitating discussions
  • Escalating issues
  • Researching recent audit findings or areas of focus for the funding agencies or Inspectors General
  • Evaluating controls
  • Reviewing policies and procedures
  • Testing the effectiveness of controls
  • Performing benchmarking analyses
  • Recommending process enhancements
  • Working with management to develop an action plan
Risk Management in Action—Identifying, Prioritizing, and Addressing Risks
Identifying the Risk Universe

• To identify a complete Risk Universe, consider creating an inventory of the areas in which problems can happen, such as:
  - “Hot Topics” or recent audit findings in the industry.
  - Issues specific to complicated types of awards or research (e.g., human or animal research, classified research, clinical trials).
  - Organizational infrastructure.
Identifying the Risk Universe

• An institution can identify its Risk Universe by:
  - Obtaining feedback from key stakeholders via interviews or survey tools. Ask insightful, open-ended questions.
  - Gathering additional background information as necessary (e.g., reviewing current policies and procedures).
  - Examining the lifecycle of the research administration process to identify risks in each stage.
Prioritizing the Identified Risks

• Using the information obtained for each risk:
  - Determine the likelihood of the risk occurring.
  - Assess the potential impact if the risk were to occur.
  - When making these assessments, also consider:
    • Institutional goals
    • Institutional strategy
    • Institutional risk tolerance
• The highest priority risks are those with a combination of high likelihood and high potential impact.
Prioritizing the Identified Risks

• Always assess risks in the context of your particular institution.
  - No two organizations have precisely the same strategies and goals.
  - Therefore, no two organizations should prioritize risks in the same way.

• One best practice is to discuss the prioritization of risks with a group of stakeholders.

• Your institution needs to reach a consensus on:
  - Which risks are most important.
  - Where to dedicate time and resources to make positive change.
Prioritizing the Identified Risks: Likelihood

- Likelihood is the probability that a risk event may occur.
- State the probability that each risk will occur on a continuum:

  Unlikely  Highly Likely
Prioritizing the Identified Risks: Impact

• Impact is the severity of the outcome should a risk event occur.
• State the severity of each risk on a continuum:

Moderate Impact

High Impact
Prioritizing the Identified Risks: Creating a Risk Map

A clear way to show risk prioritization is through a visual depiction such as a risk map.

- A risk map represents the likelihood of occurrence and the potential impact of the identified risks.
- Risks with higher likelihood and impact will receive the highest priority when developing a plan to manage risks.
Developing a Risk Mitigation Plan

• Develop a plan for addressing the highest priority risk areas. Consider the following:
  - Bring together key stakeholders to:
    • Discuss current actions being taken to mitigate each identified risk.
    • Discuss which risk areas may need additional focus.
    • Discuss potential steps to address those areas.
  - Determine and agree on an action plan including:
    • Specific tasks to perform.
    • Individuals responsible for each task.
    • Timeline for the action plan.
    • Measurement and assessment of changes.
Developing a Risk Mitigation Plan

• Convene on a regular basis
  - Assemble a representative group of individuals who have responsibility for a specific risk
  - Discuss progress and issues
  - Share best practices

• Collaborate with others when necessary
  - Individual may not be sufficiently able to address the issue
  - May require additional input from outside parties
  - Engage the internal audit department or external consultants to supplement the available skills and capacity
Developing a Risk Mitigation Plan: Reporting

- Report progress, successes and obstacles to management and/or the board of trustees
  - Should be on a regular basis
  - Increase understanding of the challenges
  - Make cases for additional resources, as necessary
Thank you for joining us today...

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