Strengthening Business Practices:
The Language of Our Control Environment

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Control Environment Agenda

• Speaking a Common Language
  – What is Internal Control?
• The Right Controls at the Right Place?
  – A Five-Part Model
• Interactive Self Assessment
  – Attitudes Toward Risk and Control
• Resources
  – Role of the Controller, Auditor
We are *Like* a Business

- Good control is good business
- Good control is everyone’s business
- Business Officers play an especially important role in our control systems
Another Good Reason: Audit Requirements

- Statement of Auditing Standards (SAS) No. 115 (aka SAS 112): *Communicating Internal Control Related Matters Identified in an Audit*
- Significantly tightens the requirements for public reporting of internal control deficiencies
...by the way, what is *Internal Control*?

A *process*, put in place by people, that is designed to provide *reasonable assurance* that we will achieve the following *objectives*:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with laws and regulations
A Framework for Achieving Objectives

Reference Document: *Understanding Internal Controls*
Management Environment

People and the Work Environment

The foundation of sound internal control

- Control Consciousness
- Tone at the top
- Ethics
- Integrity
- Accountability
Management Environment
*People and the Work Environment*

Wouldn’t you agree?

Good people can make a bad system work, while bad people can make the best system fail
Risk Assessment

*Identify, Analyze and Manage Risks*

**Understand Objectives**

What are you trying to accomplish?

**Understand Risks**

What gets in your way?

**Manage Risks**

What are you doing to manage this?

**Acceptable Exposure**

Where do you feel exposed?
Control Activities

Business Policies and Practices

• Two types of control activities
  – Preventive
  – Detective

• Common control activities:
  – authorization, approval, reconciliation, review, asset security, separation of duties, information system controls
Monitoring

Analysis of Control Systems over Time

• Are our control practices keeping pace?
  – Ongoing monitoring activities
  – Separate evaluations
Information and Communication

Capture and Exchange of Key Data

- Getting the right information to the right people in time to make quality decisions
- Systems can be formal or informal
  - Formal: sophisticated computer systems
  - Informal: periodic staff meetings
A BOI Challenge: Conduct Your Own Controls Review

• Identify an important business process in your area

• Apply the concepts from the Control Framework
  – What is the business objective?
  – Where is the risk?
  – What are the controls?

• Evaluate the results… take action if needed!
Interactive Self Assessment

*Attitudes Toward Risk and Control*

- How do you view risk and control?
  - Personal perspectives impact the quality of our Control Environment

- Meet Mary, John and Bob
  - Your imaginary co-workers
Resources

Who can I call for help?

Controller
Line management champion of internal control

Auditor
Control consulting, evaluation of controls established by management

Colleagues
Everyone is responsible for internal controls
A Balancing Act

• Controls should be proactive, value-added and cost effective

• Cost of a control should not exceed the benefit derived from it