PROJECT SUMMARY

The Texas Engineering Experiment Station (TEES) is in the process of updating their systematic, organization-wide enterprise risk management (ERM) process. While the process developed in 2005 incorporates the facets of an effective risk management program as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), formal, agency-wide communication of executive management’s commitment to ERM, risk management philosophy, risk appetite, and common risk language has not occurred following recent executive management changes. Re-assessment of the Agency’s most significant risks has not been performed since the initial implementation of ERM in 2005. In addition, management has not verified alignment of its strategies, goals and objectives with the ERM process to ensure risks that may impede Agency performance are mitigated.

TEES implemented ERM in 2005 with an internal environment that was and continues to be strongly supportive of the initiative. Two training sessions were held in 2005 to orient TEES’s personnel with the process. The initial event identification and risk assessment process was performed using a group format with evaluation of impact and likelihood based on a high, medium, or low scale. Committees, appropriately comprised of management from operating units affected by risks, were assigned responsibility and accountability for developing risk response and mitigating control activities to address risks. These activities are monitored, at a minimum, on an annual basis by operational unit management and the Risk and Compliance department. ERM communication flows effectively within the Agency both horizontally and vertically and an annual monitoring report detailing the effectiveness of mitigating and monitoring activities is presented to the Deputy Director, Chief Financial Officer, and Agency Director.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Risk Assessment

Observation

Changes in TEES’s executive management have delayed re-assessment of the ERM process. Formal, agency-wide communication of executive management’s commitment to ERM, risk management philosophy, risk appetite, and common risk language has not been communicated resulting in uncertainty among Agency personnel regarding executive management’s expectations. Evaluation of significant risks to the Agency has not been performed since initial ERM implementation in 2005. Risks identified in 2005 as pertinent to Agency sustainability may no longer be applicable as strategies, goals, and objectives may have changed.

Recommendation

Establish clear support for ERM through direct communication between executive management and the Agency, including executive management’s expectations and definitions of ERM concepts such as risk environment, philosophy, appetite, and tolerance.

Complete the unit level and agency-wide risk assessment currently in process for fiscal year 2009. Review risks identified through the ERM process on an annual basis to ensure risks being mitigated and monitored are most pertinent to the viability of the Agency.

Management’s Response

During the first quarter of fiscal year 2009, and annually thereafter, the Agency Director will communicate executive management’s expectations and definitions of ERM concepts such as risk environment, philosophy, appetite, and tolerance to the Agency in conjunction with releasing the agency-wide ERM Plan for that fiscal year.

Risks will be reviewed on an annual basis to ensure the risks being mitigated and monitored are most pertinent to the viability of the Agency.
2. Objective Setting

Observation

The 2005 TEES Strategic Plan and ERM documentation were not aligned resulting in potential inadequate mitigation of risks that could impede performance of the Strategic Plan.

Management did not integrate objective setting with the ERM process during the 2005 implementation. As a result, the ERM documentation is not aligned with the TEES Strategic Plan to ensure that risks which could impact performance of the Agency’s goals and objectives are properly mitigated.

Current executive management has adopted a ‘move forward’ approach with the intention of improving the integration of ERM and objective setting during the fiscal year 2009 process.

Recommendation

Align the fiscal year 2009 Strategic Plan, Agency Compact, and ERM documentation to allow for mitigation of risks that could hinder future performance and achievement of Agency goals.

Management’s Response

During the fourth quarter of fiscal year 2008, the 2009 ERM Plan is being aligned with the Agency Compact to allow for mitigation of risks that could hinder future performance and achievement of Agency goals. The Strategic Plan is currently under revision. In future years, on an annual basis, the Strategic Plan, the Agency Compact, and the ERM Plan will be aligned.
BASIS OF REVIEW

Objective and Scope

The overall objective was to determine if the key elements of the TEES enterprise risk management processes are designed to identify and mitigate risks through the use of a systematic, organization-wide approach. Our review focused on the components of enterprise risk management as defined by the Committee on Sponsoring Organizations of the Treadway Commission (COSO). These components include the institution’s internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring processes. Activities and documentation related to these components were reviewed for TEES’s fiscal years 2005 to 2008 ERM documentation. Audit fieldwork was conducted in May 2008.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System, and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

TEES was established in 1914 and is the engineering research agency of the State of Texas. The Agency’s mission is “to perform engineering and technology-oriented research and development for the enhancement of the educational systems and the economic development of the State of Texas and the nation.” Research performed by TEES is driven by current public needs to enhance the quality of life in Texas. The TEES fiscal year 2008 operating budget was $108.6 million and the Agency manages over $100 million in research projects annually. TEES is
headquartered in College Station, Texas and has affiliations with 15 Texas universities, one community college, and 35 multidisciplinary research centers.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

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