PROJECT SUMMARY

Overview

Overall, the enterprise risk management (ERM) processes at Tarleton State University provide reasonable assurance that significant events that could adversely affect the accomplishment of key goals have been identified, evaluated appropriately and assigned effective mitigating and monitoring activities. While the ERM concept is supported by executive management, the process could be further developed through enhanced training for University employees included in the ERM process and communication of the effectiveness of ERM activities between those responsible for implementation of mitigating and monitoring activities and the ERM coordinator. In addition, a formal reporting mechanism detailing effectiveness of the overall ERM process to both executive management and ERM participants has not been established.

Summary of Significant Results

Information and Communication

Thorough training of ERM concepts and processes for employees involved with the activity has been limited. While high-level training has allowed a functional ERM process to be developed, employees interviewed that are involved in the ERM process did not have clear understandings of ERM terms and activities as they relate to the University.

In addition, direct communication between employees responsible for mitigating and monitoring activities and the ERM coordinator has not been established. Without this communication it is difficult to ascertain whether mitigating and monitoring activities are performing as intended.

Reporting Process

A formalized reporting process detailing the functionality of the ERM activity has not been established. The reporting process should include both executive management and those directly
involved in ERM to provide insight on both successful aspects of the activity as well as areas needing improvement.

Summary of Management’s Response

Tarleton State University’s future plan includes the continued involvement of many organizational units throughout and to provide orientation at the macro and micro levels to ensure comprehensive coverage in identifying major risks to the institution.

Scope

The review of enterprise risk management processes focused on the components of enterprise risk management as defined by the Committee of Sponsoring Organization of the Treadway Commission (COSO). These components include identifying risks to the organization, assessment of the likelihood and impact of the identified risks, establishing mitigating activities to appropriately manage risks, monitoring of mitigation activities to ensure they are functioning as intended, and reporting to various levels of management on the overall effectiveness of the ERM program. Activities and documentation related to these components were reviewed in correlation to the University enterprise risk management matrix as of May 2009. Audit fieldwork was conducted from May to July 2010.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Information and Communication

Observation

| Information and communication in regards to training and effectiveness of mitigating and monitoring activities could be improved. |

Comprehensive training for employees involved in the ERM process has been limited across the University, particularly for employees responsible for implementing and managing the mitigation and monitoring activities. Interviews revealed that the staff included in the ERM process do not have a clear understanding of terms associated with ERM or the process developed by management. High-level guidance was provided to executive administration which allowed them to adequately participate in ERM activities.

Direct communication between employees responsible for risk mitigation and monitoring activities and the ERM coordinator regarding the effectiveness of those activities has not been established. While risks and risk response activities may be discussed informally by management, a high level of confidence cannot be obtained that the ERM process is effective without formally monitoring risk mitigation activities to determine that they are functioning as intended.

For communication to be most effective, relevant information must be shared vertically and horizontally across the University to enable people to carry out their ERM responsibilities. Inadequate training and communication could result in unidentified or poorly managed risks.

Recommendation

| Provide training to University management included in the ERM process to enhance knowledge of and develop support for the process. |

Establish direct communication between the ERM coordinator and those responsible for mitigating and monitoring activities. Ensure sufficient evidence is shared among the parties to verify activities addressing risks are implemented and functioning as intended. |
Management’s Response

1. Information and Communication (cont.)

Tarleton’s Office of Risk Management and Safety will develop and deploy an appropriate training program to provide a general understanding of ERM and the procedures to be followed at the University to ensure that proper risk identification, monitoring, and reporting tasks are being followed. The training will be developed and provided to all applicable personnel by March 31, 2011. The Office of Risk Management and Safety will request a review from each organizational unit to determine if additional personnel or new employees should receive the applicable training. It will be the responsibility of each vice president to ensure that the applicable individuals have received the required training.

In addition to the training opportunity, all applicable personnel will be directed to communicate the results of mitigation activities related to the ERM process with the ERM Coordinator. Those issues will then be passed on to the relevant vice president and/or the Executive Leadership Cabinet as appropriate. Routine communication will occur throughout the year to ensure appropriate monitoring and reporting.

2. Reporting Process

Observation

A formal reporting process has not been established regarding the effectiveness of the ERM activity.

A formal reporting process has not been developed to ensure University executive management, including the president, is informed on a regular basis of the effectiveness of the overall ERM program. While points of contact have been established for identified risks and mitigating and monitoring activities, the need for a structured reporting process to share information was overlooked. A regular reporting process would help ensure mitigating and monitoring activities are addressing risks that could impede achievement of the University’s strategic plan, goals, and objectives. Sharing this information further with those directly involved in the ERM process outside of executive management would promote support as participants could see how they are aiding in the success of the program.

According to the COSO ERM Integrated Framework, the entirety of enterprise risk management is to be monitored and modifications made as necessary. This can be accomplished through ongoing management activities, such as reporting.
Recommendation

2. Reporting Process (cont.)

Develop a formalized report and reporting structure to ensure University executive management, including the president, is kept apprised of the effectiveness of the overall ERM process. Distribute report information to those outside of executive management who directly participate in the ERM process as well.

Management’s Response

Tarleton’s Office of Risk Management and Safety will prepare an annual report that will be reviewed by the Executive Cabinet, including the University president, each May. The final report will be distributed to those individuals that have been identified as being directly involved with the ERM process and reporting activities will be published on Tarleton’s Office of Risk Management and Safety webpage. The webpage will provide additional information regarding Tarleton’s ERM Program with tools to assist the campus community in gaining a better understanding of the process. The webpage will be completed by March 31, 2011.
BASIS OF REVIEW

Objective

The overall objective was to determine if the key elements of the University’s enterprise risk management processes are designed to identify and mitigate risks through the use of a systematic, organization-wide approach.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System, the Treadway Commission's Committee of Sponsoring Organization’s Enterprise Risk Management – Integrated Framework, 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

The Risk Management and Safety Department has been responsible for facilitating enterprise risk management activities at Tarleton State University since 2007. Prior to that, responsibilities for ERM resided in the Office of the President. Development of the initial University ERM Risk Matrix occurred in 2005. Reassessments of identified risks and mitigating and monitoring activities are performed on an annual basis.
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