



INTERNAL ADVISORY COMMUNICATION

To: Michael Schill, President
Jayanth Banvar, Provost and Senior Vice President
Jamie Moffitt, Vice President for Finance and
Administration/CFO

From: Office of Internal Audit

Date: January 17, 2018

Re: Communication of Identified Risks

This memo is intended to facilitate discussion with and amongst senior management regarding specific risks identified through work performed by the Office of Internal Audit (OIA). During the first years of operation, OIA has identified similar root causes in many of our observations across campus. These observations have identified specific systemic issues that increase the University's risk profile and could affect achievement of the University's objectives. The Institute of Internal Audit's *International Professional Practices Framework* requires OIA to discuss these risks with senior management (Standard 2600).

Challenges and differences exist across higher education institutions regarding organizational and other foundational structures. While factors such as size and mission play a role, some common elements exist. Boards of Trustees are in place and are charged with overall governance of the institution. Boards hire and delegate administrative responsibilities to the President. The President provides overall leadership to the institution and hires other senior leaders to help manage finances and budget, develop and execute the institution's strategic plan, and establish systems of accountability and performance. While the structure chosen to support a particular institution is a decision that lies with management and the Board, there are further decisions to be made. Each unique choice of structure requires further consideration of the responsibilities that must be assigned in order to fully support it.

As you are aware, the University of Oregon is a highly decentralized and siloed environment wherein various business practices are handled by discrete units of varying sizes and complexity. While this model provides greater agility, it also



INTERNAL ADVISORY COMMUNICATION

increases the complexity of operational, compliance, and financial risks to be managed. In the current environment, the responsibilities are not assigned in a manner to mitigate the associated risks. Particularly identified by OIA are (i) the significant delegation of authority to local levels, (ii) the lack of data necessary for decision-making and monitoring by oversight functions, including questions regarding the quality of existing data, and (iii) the absence of accountability necessary in a highly decentralized environment.¹ In addition, the assignment of responsibilities is not always aligned with necessary skills, and is often assigned with a myriad of additional responsibilities – especially in smaller departments – and can contribute additional risk or operational inefficiency.

Although the University has many priorities and initiatives competing for senior management's time and attention, OIA has growing concern over the systemic nature of these issues and the overall impact they have on university personnel, financial management, and accountability. The establishment of an effective control environment², including the appropriate structure, authority, and responsibility are foundational concepts that have a pervasive impact on the University's overall success. An organization that establishes and maintains a strong control environment positions itself to be more resilient in the face of internal and external pressures.

OIA hopes to raise awareness of these issues in order for senior management to review and address. OIA recommends creating a management plan be developed and implemented within the next year that identifies solutions and actionable next steps. Although one size does not fit all, potential solutions could include limitations of

¹The Committee of Sponsoring Organizations (COSO) has been adopted as the University's internal control framework. COSO states that management, with Board oversight, is charged with establishing structures, reporting lines, and appropriate authorities and responsibilities to provide reasonable assurance that objectives will be met. It further states that the University should obtain or generate and use relevant, quality information to ensure everything is operating as intended.

² As defined by COSO, the control environment is the set of standards, processes, and structures that provide the basis for carrying out functions across the University. It guides people at all levels in carrying out their responsibilities and making decisions. It also creates the discipline that supports the assessment of risks, performance of control activities, use of information, and conduct of monitoring activities.



INTERNAL ADVISORY COMMUNICATION

authority granted to decentralized functions or an increase in tools and accountability designed to support such decentralization.

OIA is an independent, objective assurance and consulting activity designed to add value and improve operations. We look forward to discussing these issues further, including how we can assist senior management.