



NO
MORE

Risky BUSINESS

Editor's note: *This article was developed from a best-practices document that was honored and presented during SACUBO's annual meeting in April.*

WHO WANTS TO TAKE UNNECESSARY RISKS? NOT University of Texas System officials, who designed and implemented a program that provides real-time compliance status related to all applicable laws, rules, regulations, policies, and procedures unique to higher education. The objective: to make compliance risk management an integral part of the everyday activities of all employees.

The Texas System's program ensures compliance in all operations, including student financial aid, basic research, clinical research, medical billing, environmental health and safety, endowments, student activities, intercollegiate athletics, human resources, and financial matters. By training 70,000 employees to do the right thing, conducting risk assessments, and monitoring activities to reduce risk, the program changed the institutional culture from management by directives and edicts to risk management by individuals who are held accountable.

The employees' changing attitude toward the

management of risk has resulted in an increase in questions before action is taken and a decrease in noncompliance surprises for executive management and the board of regents.

The High Cost of Failures

In the mid-1990s, the university system experienced a number of high-profile internal control failures that resulted in the loss of assets, a compromised reputation with the public and with funding authorities, and extensive damage control. As a result, the board of regents in early 1998 directed executive management to establish an ongoing process that would ensure that the university system and all of its components were operating in compliance with the appropriate internal and external requirements.

At that time, the university system and each component institution had an internal audit function in place, but processes, functions, and individuals were assessed only when internal auditors performed work in a particular area. This periodic assurance work was too intermittent to catch most problems before they became front-page news.

By Charles G. Chaffin

By establishing an effective compliance program, you can change your institution's culture from management by edict to risk management by accountable individuals. The University of Texas System trained all 70,000 employees to be mindful of risk, thereby heading much of it off at the pass.



A new triage team of human resources, internal audit, compliance, and legal professionals reviews all incidents and determines what action, if any, is necessary.

Program Design and Implementation

To design an effective institutional compliance program, we took four steps:

1. Appointment of an ad hoc committee to design the program and develop a process for implementation.
2. Obtaining expert assistance. As no information was available on the design and application of a comprehensive compliance program for institutions of higher education, we hired an outside expert who conducted several educational sessions with members of the ad hoc committee.
3. Adoption of an operating philosophy and goals and objectives for the compliance program.
4. Development of the document "An Action Plan to Ensure Institutional Compliance."

To begin implementation of the compliance program, we completed three tasks:

1. Appointing an institutional compliance officer who was a member of the executive management team.
2. Establishing an institutional compliance committee with three major duties: providing resources for the program, ensuring that appropriate action for noncompliance issues is brought to its attention, and providing overall policy guidance. As the executive compliance committee model evolved, supporting committees were established to deal with information gathering and dissemination.
3. Creating a separate compliance function or office.

Communicating With Employees

Once the compliance infrastructure was in place, the implementation effort shifted to informing all employees about the initiative and their responsibilities in the program. During this phase we developed a standard of conduct guide. We based the content of our code of conduct on existing policies, procedures, laws, rules, and regulations governing operations. The resulting document included all compliance issues that were not specific to particular jobs or job areas. For each issue, we stated the requirements in clear language; cited the specific law, rule, regulation, policy, or procedure that gave rise to the issue; and provided contact information in case more in-depth information was needed.

Based on the guide, we initiated a compliance training program for all employees, including faculty. In addition, we formed a committee to explore various methods of training delivery and to recommend an approach for our program. Web-based training was chosen as the primary method of delivery because content could be controlled, completion could be easily tracked, and

employees could take the training at their individual speeds. Face-to-face sessions were held for those employees who were not comfortable using computers or did not have computers available to them.

In addition, a confidential reporting mechanism was established. We tried several techniques, such as on-campus answering machines and mailboxes, but we ultimately found that the most effective method was to contract with an external provider of confidential-reporting services. This method provides a trained person to receive calls on a 24/7 basis, 365 days a year, and ensures the confidentiality of the caller. Cost is usually based on the size of the employee universe. We established a triage team, which included human resources, internal audit, the compliance officer or coordinator, and the legal department. This team reviews every incident report and determines the actions to be taken.

Managing Mission-Critical Risks

As the awareness phase became operational, we began managing the mission-critical compliance risks. Using a self-assessment methodology, we conducted initial assessments in the identified risk areas of the institution. From these area-risk assessments, the compliance officer, compliance committee, and compliance working committee selected the compliance risks most critical to the institution. These risks became the primary concentration of the institutional compliance program. The identified compliance risks that were not chosen as institution critical continued to be the responsibility of the appropriate operational manager.

Because the Texas System has multiple institutions, we also established ad hoc committees for each risk area that was common to several components. These include medical billing, clinical research, basic research, environmental health and safety, student financial aid, athletics, human resources, endowments, and fiscal matters. These committees developed a generic risk assessment for their areas. The individual component compliance programs use these risk models to validate their independent risk assessments. This approach has proven to be an effective vehicle for sharing knowledge, new exposures and risks, and best-practice solutions to risk management problems.

After establishing our critical-risk list, we began developing plans for each risk. The plan includes the designation of a single responsible party, as well as the development of a monitoring plan, a specialized training plan, and a reporting plan. For some risks, we accomplished the tasks in six months. For other risks, the process has taken several years. ►

SNAPSHOT:

The University of Texas System

The University of Texas System comprises 16 autonomous institutions under a single board of regents. It has 150,000 students, 70,000 employees, a \$5 billion annual operating budget, and a \$13 billion endowment. The 16 institutions range in size from less than 5,000 students to more than 50,000. Nine are academic institutions, six are health-related, and one is the central administration unit that provides common services to the other institutions.

The designation of a single responsible party for a mission-critical risk is difficult but essential—there can be only one responsible party. If a single party cannot be identified, then you probably have more than one risk or organizational problem. The two defining characteristics of a responsible party for a risk are the authority to allocate resources to manage the risk and the knowledge necessary to manage the risk.

The responsible party is charged with preparing the remainder of the risk management plan—namely, the monitoring plan, the specialized training plan, and the reporting plan. Most responsible parties need significant help and training in performing these tasks and must use the institution's internal audit department and compliance function as trainers and leaders. During our implementation, we conducted general training sessions on the building of risk management plans and provided individual help to responsible parties on specific parts of their plan.

Operational personnel sometimes believe this requires new activities on top of what they already do. In reality, the development of the risk management plan involves codifying actions they are already taking or need to take.

Appraisals Rely on Peer Reviews

The appraisal and renewal phase of implementation includes three distinct steps: addressing instances of noncompliance, ongoing assurance regarding the management of mission-critical compliance risks, and periodic assessments of the compliance program.

Peer reviews are a major source of appraisal and assurance within the compliance program. These reviews provide the

advantage of experts looking at their area of expertise, rather than auditors with general knowledge reviewing the area. They also allow for the exchange of information among peers and vastly expand the available resources for the highest level of assurance. We do not have enough auditors to audit every high-risk area. Consequently, the ability to use teams of external experts in specific risk areas allows us to provide maximum assurance regarding the management of mission-critical risks.

Significant Benefits

Although specific dollar benefits are hard to identify, we can easily pinpoint other types of benefits as a result of this program.

First, we can document an increased occurrence of questions and consultations between employees and subject matter experts about whether or not a proposed transaction or activity is compliant. This increased awareness of the consequences of actions by employees indicates the compliance program is affecting the day-to-day thinking of the institution.

Second, we can document a culture shift in some of our component institutions from management by decree to management by knowledge: The right people have the right information to make the right decision in a real-time situation. The ultimate indicator of success is the institution's presence on or absence from the front page of the newspaper.

In addition, after experiencing a \$17 million fine due to medical billing errors prior to 1998, we have dramatically reduced our error rate and have avoided being audited by the office of inspector general during the past five years. Our safety program has received several awards and has become a model for the state. Our workers compensation claims have dropped during the past five years, and we have saved more than \$10 million during this time. Plus, we have significantly reduced our fines from the Environmental Protection Agency and other regulatory bodies. During the next year, we will develop a system to capture the quantifiable benefits of “doing the right thing.”

Through our internal control and compliance programs, we have set the stage to become the first educational system to develop an enterprise-wide risk management and accountability program.

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