



THE OHIO STATE UNIVERSITY

Leveraging the Internal Audit and Compliance Relationship



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Presentation Goals

- Explore how internal audit and compliance can collaborate to enhance development of effective internal controls and management oversight
- Consider ways to foster better communication among government agencies, compliance, internal audit, and employees to manage outside engagements and minimize risk.



Poll Question #1

Where do you work?

1. Government Agency
2. Higher Education
3. Corporation
4. Non-profit
5. Other



What is Internal Auditing

As defined by the *Institute of Internal Auditors*:

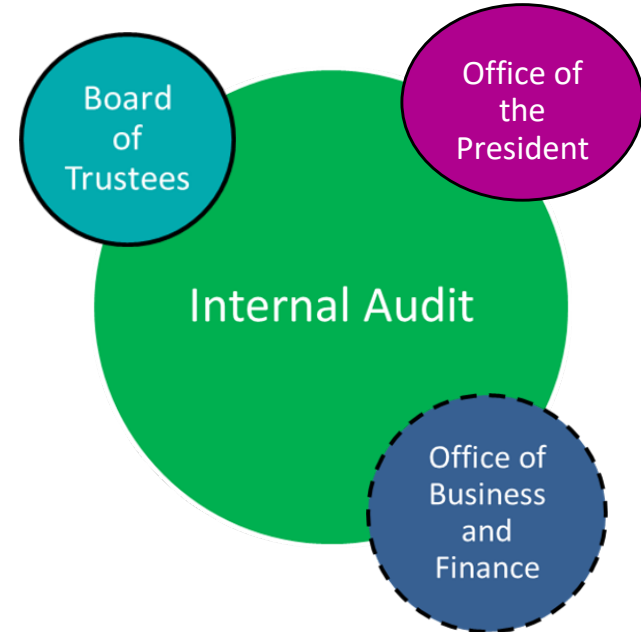
Internal auditing is an **independent, objective** assurance and consulting activity designed to add value and improve the organization's operations. It helps an organization accomplish its objectives by bringing a systemic, disciplined approach to **evaluate and improve the effectiveness of risk management, control, and governance processes.**





Reporting Relationship of Internal Audit

- Reporting lines can vary depending on industry, organizations, external reporting agencies among others.
- As a best practice, Internal Audit activity should have a dual reporting relationship
 - Chief Audit Executive – Reports to Executive management for assistance in establishing direction and support
 - Department – Reports to the most senior oversight group (e.g. Audit Committee)





Poll Question #2

Does your Chief Audit Executive report to the Board?

1. Yes
2. No
3. Other



Internal Auditors vs. External Auditors

Internal Auditors

- Organization's employees
- Assist management, board of directors in development and implementation of internal controls to deter and detect fraud
- Assuring that everyone follows policies, procedures

External Auditors

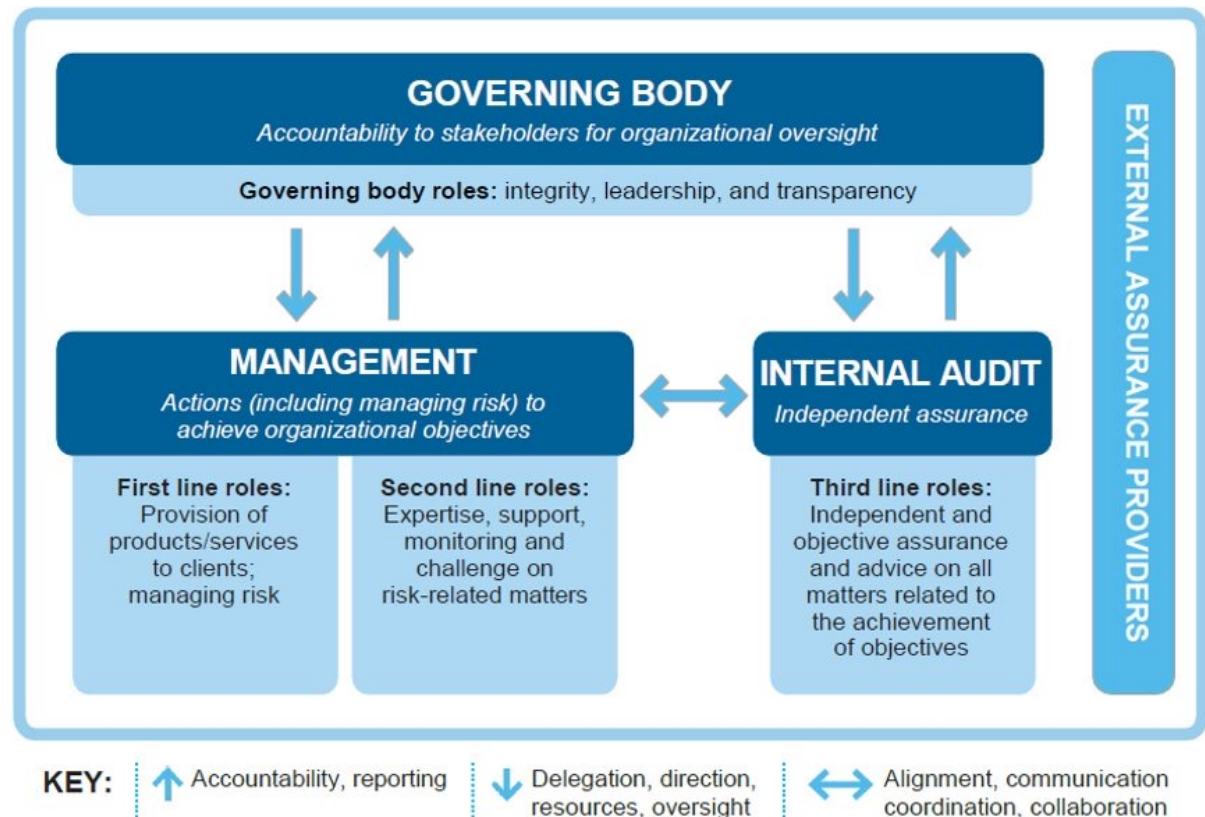
- Independent of institution
- Examine books to express opinion on overall fairness and accuracy of financial statements
- Assuring that financial statements are materially correct
- External Assurance Providers
 - OIG, OCR, Department of Justice



The Three Lines Model

- Previously known as the Three Lines of Defense
- Institute of Internal Auditors approach to Governance and Risk
- Updates published in July 2020 to better align with the changing landscape of organizations

The IIA's Three Lines Model



Source: The Three Lines Model Updated; Published July 2020



Principles of the Three Lines Model

- **6 principles**

- Principle 1: Governance
- Principle 2: Governing body roles
- Principle 3: Management and first and second line roles
- Principle 4: Third line roles
- Principle 5: Third line independence
- Principle 6: Creating and protecting value



Relationships Among Core Roles

- **Governing Body and Management**
 - Governing Body sets the direction of the organization by defining the vision, mission, values and organizational appetite for risk.
 - Receives reports from Management on planned, actual and expected outcomes
- **First-line and Second-line Roles and Internal Audit**
 - Internal Audit builds knowledge and understanding of the organization through regular interaction with management to ensure the work of Internal Audit is relevant.
 - Internal Audit contributes to the assurance and advice it delivers as a trusted advisor and strategic partner to both first line and second line roles.
- **Governing Body and Internal Audit**
 - Governing body is responsible for oversight of Internal Audit



Poll Question #3

Are your Internal Audit and Compliance functions combined?

1. Yes
2. No
3. Other



Internal Audit and Compliance

- Regardless of industry, it's likely that your organization has both of these functions.
- Both are highly beneficial to the organization
- Both bring unique individuals and perspectives to a common goal—mitigating risks in the organization.
- Both analyze, review, and evaluate existing procedures and activities
- Compliance generally will sit in the second-line roles within Management



Key Differences between Compliance and Internal Audit

• Compliance

- Management function
- Generally focuses on regulatory risks (think agencies such as OCR, SEC, OIG, HHS, etc. or regulatory areas such as HIPAA, FERPA, Title IV, SOX, etc.)
- Legal backgrounds and education

• Internal Audit

- Independent of management function
- Generally focuses on all of the organizations risks
- Financial and accounting backgrounds and education



Regulation of Higher Education

- Among most extensively regulated industries in the United States
- Hundreds of applicable laws and regulations; numerous regulators
- Many applicable laws tied to the receipt of federal funds (e.g., Title IX, Clery Act, Human Research, etc.)
- Many other laws of general application (e.g., Export Controls, ADA, False Claims Act, etc.)
- Increasing regulatory demands and expectations
 - New federal and state laws
 - Growing complexity of requirements
- **Regulatory change is our top compliance risk.**





Poll Question #4

How often do you interact with institutions of higher education?

1. Frequently
2. Infrequently
3. Never



Compliance and Ethics Framework





Higher Education and Foreign Influence in the News

 The New York Times

U.S. Accuses Harvard Scientist of Concealing Chinese Funding

U.S. Accuses Harvard Scientist of Concealing Chinese Funding ... Prosecutors say Charles M. Lieber, the chair of Harvard's chemistry department, ...

Jan 28, 2020



CBS Pittsburgh

Ex-Ohio State Professor Sentenced For Sharing Work With China

Song Guo Zheng, 58, who had been working most recently at Ohio State University, will also have to pay \$3.4 million in restitution to the ...

1 month ago





Foreign Influence and Higher Education

- Telecommunications Equipment Purchase Prohibitions
- New Entities Added to Federal Restricted Party Lists
- Expanded Requirements for Reporting Foreign Gifts and Contracts
- New Guidance on Reporting Foreign Affiliations and Activities in NIH Biosketch and Other Support Reports
- New Guidance Reporting Foreign Affiliations and Activities for NSF Grants
- Department of Energy Increased Requests for Information and/or Prior Approval of foreign national participation in research contracts
- Office of Science and Technology Policy (OSTP) review resulting in the issuance of National Security Policy Directive 33 in January 2021 (NSPM-33)



NSTC/JCORE Guidance (2021)

21 Recommendations in 5 Categories





NSTC/JCORE Guidance (2021)

Leadership Engagement

- Convey importance of research security
- Organizational approach
- Working groups and task forces
- Comprehensive program

Openness and Transparency

- Establish COI and COC policies
- Require disclosure
- Foreign students and researcher info.
- Digital Persistent identifiers
- Foreign gifts and contracts

Training and Support

- Responsible research training
- FGTP guidance
- Partner with FBI field offices
- Risk indicator education
- Information sharing with federal agencies

Mechanisms for Compliance

- Discovering disclosure violations
- Effective consequences
- Employment agreements

Collaborations and Data Risks

- Centralized review process
- Foreign travel and guidance
- Foreign visitors and visiting scholars
- Data security measures



INTERNAL AUDIT AND COMPLIANCE PARTNERSHIP

Ethical Values and Leadership Engagement

- **Promoting Shared Values**
 - Promoting Excellence and Impact
 - Promoting Diversity and Innovation
 - Promoting Integrity and Respect
 - Promoting Care and Compassion
- **Research Security Governing Board**
 - Vice President for Research and Chief Compliance Officer co-chair the Board
 - Internal Audit Director serves on the Board

Values, Principles, Behaviors

Excellence and Impact

Demonstrating leadership in pursuit of our vision and mission

Principle: Advancing sustainable and evidence-based solutions through mutually beneficial partnerships

Behaviors: Together, we

- Stimulate creativity, critical thinking and problem solving
- Proactively collaborate with others and strive for meaningful outcomes
- Are bold in our endeavors and create environments to foster new approaches
- Demonstrate persistence and commitment
- Inspire others to join in and take action
- Champion everyone's potential for success

Diversity and Innovation

Welcoming differences and making connections among people and ideas

Principle: Encouraging open-minded exploration, risk-taking, and freedom of expression

Behaviors: Together, we

- Are curious and open to different experiences
- Recognize everyone's potential to contribute new ideas
- Actively engage others' perspectives as opportunities for individual and institutional growth
- Work toward creative, collaborative solutions
- Use our successes and failures to learn and improve with humility

Inclusion and Equity

Upholding equal rights and advancing institutional fairness

Principle: Advocating for access, affordability, opportunity, and empowerment

Behaviors: Together, we

- Intentionally foster a sense of belonging where all are valued
- Strive to understand and appreciate each other's backgrounds and experiences
- Listen to multiple voices and engage in civil discourse
- Acknowledge and address individual and systemic effects of bias and discrimination

Care and Compassion

Attending to the well-being of individuals and communities

Principle: Putting people at the center of all we do

Behaviors: Together, we

- Are compassionate and meet people where they are
- Protect the vulnerable and marginalized
- Encourage self-care and support the whole person, at work and at home
- Nurture a community of mindfulness, kindness, and gratitude

Integrity and Respect

Acting responsibly and being accountable

Principle: Building trust through honesty, transparency, and authentic engagement

Behaviors: Together, we

- Value our greatest resource, our people, and acknowledge the contributions of every individual
- Allow people to make and learn from mistakes
- Work conscientiously and assume positive intent of others
- Actively listen and engage in open, honest dialogue
- Are good stewards of our and others' resources



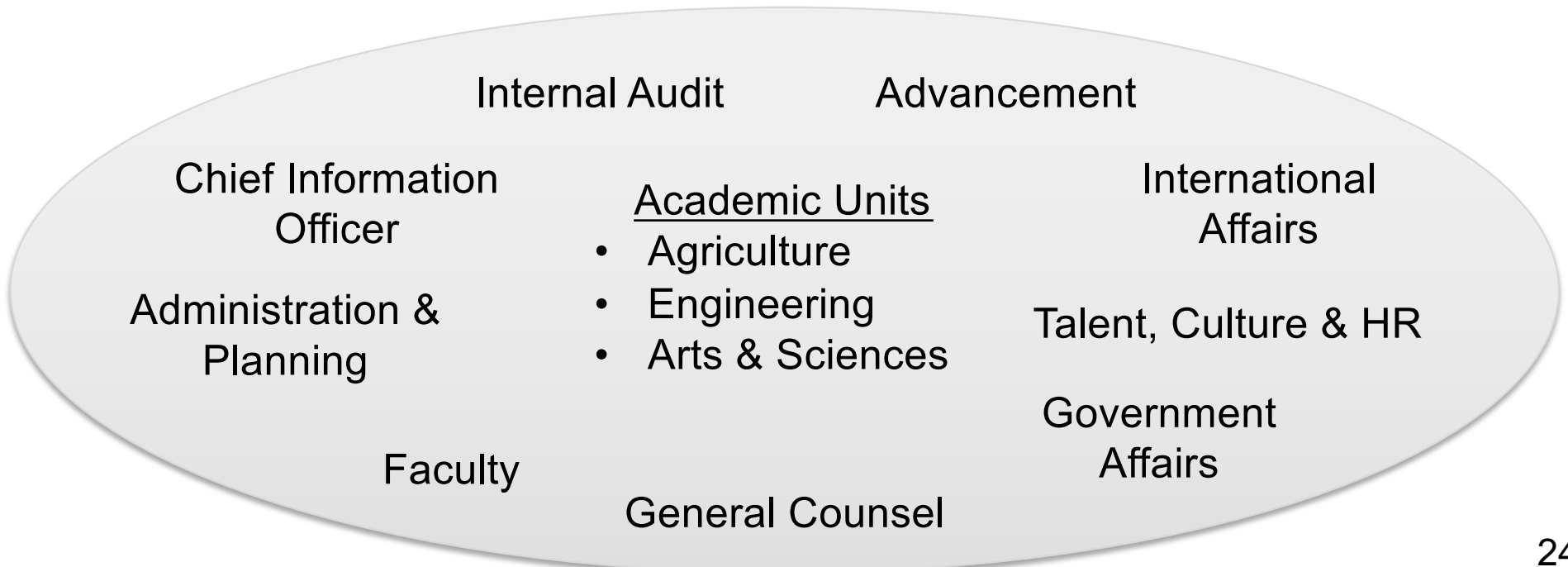
Research Security Governing Board (RSGB) Governance for the Research Security Program

VP for Research
(co-chair)

Chief Compliance
Officer (co-chair)

Chief Research Security
Officer¹ (facilitator)

1 – Role defined in NTSC JCORE Report
(title may vary)





INTERNAL AUDIT AND COMPLIANCE PARTNERSHIP

Risk Assessment, Policies, Transparency and Communication

- **Risk Assessment**
 - Primary Risk Assessment: Office of Secured Research
 - Internal Audit - Annual Risk Assessment: 5-year plan
- **Policies**
 - Compliance: Lead policy revisions
 - Internal Audit: Participate in policy feedback process
- **Transparency and Communication**
 - Membership on information sharing committees: FACT, UICC
 - Compliance: Formal training sessions
 - Internal Audit: Education on internal controls during audit process. Explaining the reasons behind key internal controls
 - Collaboration during Outside Activities and Conflicts policy process



Outside Activities and Conflicts: Policies and Processes

University Values




Multiple Policies



Multiple Processes



 **Outside Activities and Conflicts**
University Policy

Applies to: Faculty, Staff, student researchers, student Employees, graduate associates, applicants (Staff who are members of a bargaining unit and are covered by a collective bargaining agreement are included in this policy. However, when this policy conflicts with specific terms in the applicable bargaining agreement, the language in the collective bargaining agreement will prevail.)

Responsible Office: Office of Academic Affairs

POLICY

Issued: MM/DD/YYYY
 Revised: MM/DD/YYYY
 Edited: MM/DD/YYYY
 Reviewed: MM/DD/YYYY

Participation in outside activities, such as with government, industry, and other private institutions, generally serves the academic interests of the university. Such activities provide significant benefits to the university and the employee, including the dissemination to the public of knowledge and technology developed within the university, allowing employees to bring innovative experiences to the classroom, and promoting the professional growth, experience, and recognition of university employees. However, these activities must be balanced with the avoidance of conflicts of interest (COI) and conflicts of commitment (COC).

All employees, including faculty and staff, are expected to devote their primary professional allegiance to the university. All employees should arrange outside obligations, financial interests, and activities so as not to conflict or interfere with this commitment to the university.

To ensure that employees participating in outside activities do not compromise their ability to perform their university responsibilities, employees must obtain preapproval and meet ongoing review and disclosure requirements for outside activities related to their university responsibilities, as defined in this policy. These responsibilities include position or job duties, research interests, time commitments, the obligation to act in the best interest of the university, and to protect university resources and intellectual property.

Purpose of the Policy

The purpose of this policy is to provide boundaries and expectations for conducting outside activities; establish processes for transparency and accountability through the identification, approval, disclosure, and, when possible, management of COIs and COCs; facilitate compliance with federal research regulations, state ethics laws, and unit specific requirements; and notify employees and applicants of potential consequences of noncompliance with federal regulations, state laws, and this policy.

Definitions

Term	Definition
Conflict of Commitment (COC)	A COC exists when outside activities: <ol style="list-style-type: none"> (1) interfere with an employee's ability to fulfill university expectations, obligations, and/or responsibilities; (2) compete with the university's interests, including its educational, research, or service missions; or (3) create an actual or perceived conflict under the Ohio Ethics Law.

The Ohio State University – University Policies policies.osu.edu Page 1 of 11



Key elements

- **Integrates university values, four pre-existing policies, and multiple processes;** clarifies expectations and responsibilities regarding conflicts
- **Combines requirements of multiple legal areas**
- **Codifies existing university-wide eCOI disclosure process**
- Implements more consistent process for obtaining outside activity approval by aligning faculty and staff
- **Establishes a Conflicts Approval Committee (CAC)** to review/approve outside activities for conflicts meeting certain criteria; allows college/unit participation in approvals, and allows them to set more restrictive requirements
- Clarifies accountability for violations

Incorporated policies

- **Faculty Financial Conflict of Interest (Office of Research).** Governs conflicts related to research; applies to faculty, staff, and students associated with research activities
- **Conflicts of Commitment (Office of Academic Affairs).** Governs conflicts related to all faculty responsibilities; conflicts reviewed by chair/dean
- **Faculty Paid External Consulting (Office of Academic Affairs).** Governs conflicts related to consulting/other paid outside activities; requires approved by chair or supervisor
- **Conflict of Interest and Work Outside the University Policy (Office of Human Resources).** Governs conflicts related to all staff responsibilities. Applies to staff and applicants; requires outside activity requests to be approved by supervisor.



Poll Question #5

Opinion: Would you prefer combined policies or separate polices for the management of multiple types of conflicts?

1. Combined
2. Separate
3. Undecided



INTERNAL AUDIT AND COMPLIANCE PARTNERSHIP

Operational Controls, Evaluation, and Risk Management

- **COSO – Internal Control – Integrated Framework (2013)**
- **Preventative and Detective Controls**
 - Preventative Controls - Centralized Approval Committee responsible for COI, FCOI, COC pre-approval for outside activities (pending); Policy Awareness and Training
 - Detective Controls - Electronic Conflicts of Interest Disclosure Process
- **Evaluation and Risk Management**
 - Internal Audit and Compliance Collaborate to Identify High Risk Areas: New chair, Intellectual Property Development, Start-Up Companies
 - Annual audits
 - Risk Sampling
 - Travel and leave evaluations



Travel Expenses

Routine College of Engineering audit

- Data analytic work with travel reports available in financial system
 - Top Travelers – individuals spending a significant number of days on travel status
 - Destination Country – individuals who traveled to foreign countries

Traveler	Sum of Days on Travel Status	Count of T Number
Staff A	273	1
Staff B	251	1
Professor A	250	4
Staff C	246	2
Professor B	237	2
Professor C	208	2
Professor D	137	2
Professor E	95	8
Professor F	80	2
Professor G	67	15

Country of Travel	Count of T Number
MAR	1
Professor H	1
AUS	3
Professor I	1
Professor J	1
Professor A	1
CHN	10
Professor K	1
Professor L	2
Professor J	1
Professor E	1
Professor M	2
Professor N	1
Professor O	1
Professor P	1
IND	4
Professor Q	1
Professor R	1
Professor S	1
Professor T	1
JPN	3
Professor B	1
Professor C	1
Professor G	1



Travel Expenses

- **Items to Consider for Review and Potential Red Flags**
 - Business Purpose – who, what, where, when, why, how
 - Estimated cost versus reimbursed cost
 - Days on Travels Status – conflicts of commitment or during periods of time off (semester off duty)
 - Paid honorarium or other types of compensation
 - Third Party Payments



INTERNAL AUDIT AND COMPLIANCE PARTNERSHIP

Issue Response and Reporting

- **Cooperation and coordination for Investigations**
 - Generally, allegations of financial fraud and misuse are investigated by the Internal Audit department while allegations of ethics violations, human resource complaints, etc. may be investigated by Compliance and Integrity.
 - Case overlap requiring expertise from both Internal Audit and Compliance.
 - Weekly status updates
 - Coordinated interviews with representatives from each department
 - Joint reports



Poll Question #6

Does your organization have a protocol for Compliance and Internal Audit conducting joint investigations?

1. Yes
2. No
3. It depends
4. Unsure



Investigations Oversight and Governance

Investigative Teams

Office of University Compliance and Integrity			
<ul style="list-style-type: none"> Leader: Chris Garco Investigates: Any issues as needed/requested Oversight: General Counsel and Audit and Compliance Committee 			
Human Resources Employee & Labor Relations <ul style="list-style-type: none"> Leader: Tom Ramey Investigates: Discrimination, harassment, workplace violence, other HR policy issues Oversight: Office of Human Resources 	Medical Center HR Employee & Labor Relations <ul style="list-style-type: none"> Leader: Kristie Henneman Investigates: Discrimination, harassment, workplace violence, other HR policy issues Oversight: Office of Human Resources/Med Center HR 	Athletics Compliance <ul style="list-style-type: none"> Leader: Doug Archie Investigates: NCAA/Big 10 violations; Athletics policy issues Oversight: Department of Athletics; OUCI 	Medical Center Compliance <ul style="list-style-type: none"> Leader: Gabby Reissland Investigates: Healthcare regulatory and policy issues; ethics issues Oversight: Med Center Compliance Committee; OUCI; Med Center Legal
Research Compliance <ul style="list-style-type: none"> Leader: Jan Yucel Investigates: Research and grant misconduct; other research policy issues Oversight: Office of Research; OUCI 	Student Conduct <ul style="list-style-type: none"> Leader: Justin Moses Investigates: Code of Student Conduct violations Oversight: Office of Student Life 	Internal Audit <ul style="list-style-type: none"> Leader: Kevin Patton Investigates: Financial wrongdoing and control violations; BSF policy issues Oversight: Office of Business and Finance 	Chief Information Security Office <ul style="list-style-type: none"> Leader: Helen Patton Investigates: Information Security Breaches Oversight: Office of the Chief Information Officer; OUCI
Office of Academic Affairs <ul style="list-style-type: none"> Leader: Jan Negril (Legal) Investigates: Rule 3335-5-04 faculty misconduct Oversight: Provost 	ADA Coordinator <ul style="list-style-type: none"> Leader: Scott Loomer Investigates: Accessibility and disability discrimination Oversight: Office of Diversity and Inclusion; OUCI 	Office of Legal Affairs <ul style="list-style-type: none"> Leader: Jan Reiger Investigates: Various ad hoc investigations Oversight: Deputy General Counsel 	Police Department <ul style="list-style-type: none"> Leader: Paul Denton Investigates: Criminal incidents Oversight: Department of Public Safety

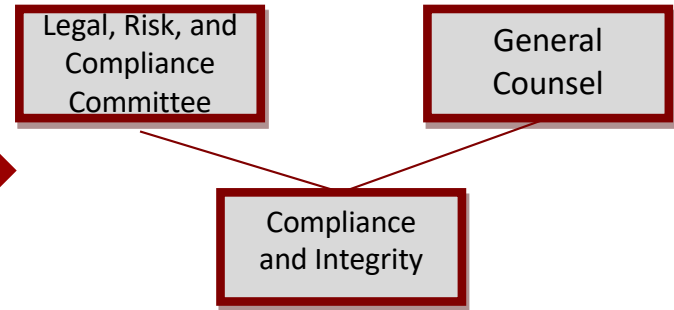
Investigations Rating Methodology

Materiality Ratings

Rating	Public Interest	Subject Position	Regulatory
5	Major reputational topics of immediate interest to the general public	Concerns unit or senior leader	Regulatory debarment or shutdown
4	Potential for significant publicity; of interest to the general public	Concerns management of some activity	Regulatory prohibition/ongoing supervision
3	Small potential for publicity; of interest to the general public	Concerns staff or faculty	Regulatory warning letter or equivalent
2	No potential for publicity; no interest to the general public	Concerns staff or faculty	Advisory letter or other indication of ongoing interest
1	No potential for publicity; no interest to the general public	Concerns staff or faculty	No regulatory enforcement interest

Action Steps Summary

Rating	Investigation	Investigator	Start Date	End Date	Status
5	Investigation of [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
4	Investigation of [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
3	Investigation of [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2	Investigation of [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
1	Investigation of [redacted]	[redacted]	[redacted]	[redacted]	[redacted]



Conducting

Tracking

Reporting

Investigative Teams

- Plan and lead investigations for complaints in defined subject areas
- Document findings
- Recommend corrective actions

- Track investigations in defined subject area, and regularly report new investigations and progress on existing investigations to University Compliance and Integrity
- Monitor implementation of corrective actions

- Provide information as necessary to unit leadership and OUCI
- When appropriate, leader of unit overseeing investigative team reports to the Board

Office of University Compliance and Integrity

- Plan and lead investigations when other teams need or when requested by senior leadership
- Provide consultation and/or direct oversight on material investigations as needed
- Administer EthicsPoint hotline and assign issues to appropriate teams

- Assign materiality ratings to matters, and coordinate with investigative teams to follow protocols
- Receive regular reports from investigative teams
- Maintain central tracker of investigations across the university

- Report material matters to the General Counsel and the Board of Trustees' Audit and Compliance Committee
- When appropriate, facilitate reporting to senior leaders



Investigations Rating Methodology & Protocol

Materiality Ratings

Rating	Public Interest	Subject Position	Regulatory
5	Major reputational topic; of immediate interest to the general public	Concerns unit or senior leader	Regulatory debarment or shutdown
4	Potential for significant publicity; of interest to the general public	Concerns management of some seniority	Regulatory probation/ongoing supervision
3	Potential for publicity; could be of interest to the general public	Concerns staff or faculty	Regulatory warning letter or equivalent
2	Small potential for publicity; no known interest to the general public	Concerns staff or faculty	Advisory letter or other indication of ongoing interest
1	No potential for publicity; no known interest to the general public	Concerns staff or faculty	No regulatory enforcement interest

Action Steps

5 Key stakeholders advised; investigation coordinated by OUCI
Investigations Team Member: Consult OUCI, investigation TBD OUCI Responsibility: Consult Senior VP & General Counsel, coordinate investigation Additional Responsibility: Senior VP & General Counsel to inform key stakeholders as appropriate
4 Appropriate Senior Leaders advised; investigation overseen by OUCI
Investigations Team Member: Consult OUCI, investigation TBD OUCI Responsibility: Notify Senior VP & General Counsel, oversee investigation Additional Responsibility: Senior VP & General Counsel to inform Senior Leaders as appropriate
3 Management advised; OUCI and Unit collaborate on investigation
Investigations Team Member: Consult OUCI, perform investigation themselves OUCI Responsibility: Notify university leaders as appropriate, monitor Additional Responsibility: None
2 Unit oversees investigation
Investigations Team Member: Notify OUCI, perform investigation themselves OUCI Responsibility: Monitor Additional Responsibility: None
1 Local investigation
Investigations Team Member: Notify OUCI, perform investigation themselves OUCI Responsibility: Monitor Additional Responsibility: None



Session wrap-up

- Internal Audit functions and the Three Lines Model
- Internal Audit and Compliance roles in organizations
- Compliance and Ethics framework and how Internal Audit fits with each component
- Regulations in higher education and current issues regarding foreign influence
- Communication and collaboration techniques between internal stakeholders and external regulators and law enforcement



Citations

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- How Internal Audit Can Work with Compliance to Increase Value - <https://internalaudit360.com/how-internal-audit-can-work-with-compliance-to-increase-value/>
- Baker Tilly and ACUA Webinar Foreign Influence – How internal audit can help address concerns and risk on campus
- Institute of Internal Auditors Three Lines Model Updated Paper - <https://na.theiia.org/about-us/about-ia/Pages/Three-Lines-Model.aspx#positionpaper>
- Association of College & University Auditors – Kickstarter for Foreign Influence
- Council on Governmental Relations (COGR) – Federal Focus on Inappropriate Foreign Influence on Research: Practical Considerations in Developing an Institutional Response
<https://www.cogr.edu/sites/default/files/COGR%20Foreign%20Influence%20Practical%20Considerations%20-%20Aug%202021%20%281%29.pdf>
- National Security Presidential Memorandum (NSMP-33): <https://trumpwhitehouse.archives.gov/presidential-actions/presidential-memorandum-united-states-government-supported-research-development-national-security-policy/>
- Recommended Practices For Strengthening The Security and Integrity of America (JCORE Guidance)
<https://trumpwhitehouse.archives.gov/wp-content/uploads/2021/01/NSTC-Research-Security-Best-Practices-Jan2021.pdf>