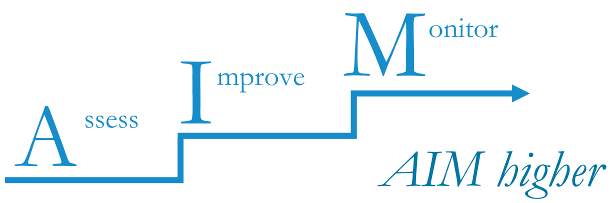
AUDIT AND ADVISORY SERVICES



CHANGE MANAGEMENT INCLUDES MANAGING RISK

Change can be difficult, but it is also inevitable. At both an individual and organizational level, people may resist the stressful process of change in favor of the comfort and familiarity of the status quo, even after acknowledging that the results of the change will be valuable. However, stagnation is not a valid option for a successful business. Resisting change may prolong the use of relatively more expensive processes, inefficient technologies, insecure systems, and outdated processes as well as the organizational infrastructure required to support those activities.

Change management requires assessing and mitigating any new risks resulting from the implementation of a process change since changes in business processes are usually accompanied by an increase in business risks. Controls in place to prevent or detect and correct adverse results under a process may be less effective if they are not adjusted to account for changes in that process. The greater the scope of the change, the more likely that risks will increase if not effectively assessed and managed.

Some common risks to consider include:

- *Roles and responsibilities not well defined*, causing confusion, delays, and duplication of effort, as well as negative effects on employee morale, motivation, and commitment
- *Lack of clear communication regarding changes*, leading to a lack of engagement and involvement by personnel responsible for carrying out duties related to the change
- *Processes not realigned to account for the changes made*, potentially resulting in multiple issues, including non-compliance with regulations, misdirection of work products, and negation of existing lines of accountability and segregation of duties
- *Information Technology structure not sufficiently resilient to accommodate and reflect the changes*, requiring rapid redesign, additional procurement and personnel efforts, and compatibility issues with existing infrastructure

Complete mitigation of all potential business risks may be cost-prohibitive or simply not possible; however, successful assessment of risks can allow change leaders to focus on those risks which are most likely to occur and could have the biggest impact in order to prevent the most likely negative consequences from affecting the organization.

INSIDE THIS ISSUE

SPECIAL POINTS OF INTEREST—UPCOMING SYSTEM CHANGES

UCSF is continually updating and enhancing our systems for increased efficiency and effectiveness. Below are some updates to be aware of:

- Voicemail Migration to Cisco Unity
- Migration of On-Premise Email to the Cloud
- New General Ledger Verification tool

MEET OUR TEAM

Associates Out and About!

You may find us in lab coats or jeans as we go about helping our clients in all different areas.

Pictured: Paul Lapachet

1855 Folsom Street
Suite 107
San Francisco, CA 94143
Phone: (415) 476-3851

AuditAdvisor@ucsf.edu

http://audit.ucsf.edu

UC Whistleblower website and Hotline:

http://ucwhistleblower.ucop.edu

(800) 403-4744

FRAUD CORNER

Fraud during organizational transformation

SEC filed a complaint stating that Waste Management had been "perpetrating a massive financial fraud lasting more than five years."

The complaint alleged that management devised a fraud scheme that included falsification and misrepresentation of financial results. Waste Management acquired hundreds of smaller companies in the 1990s, and used the subsidiaries to offset inappropriate entries created by company headquarters to meet financial targets.

SEC filed a suit stating that Sunbeam "orchestrated a fraudulent scheme to create the illusion of a successful restructuring of Sunbeam and facilitate the sale of the company at an inflated price."

The suit alleged that, during a reorganization, Sunbeam inflated earnings; engaged in channel stuffing, bill and hold sales; and overstated its inventory. It used the acquisition of three companies during that time period to help mask the fraud.

Change often causes confusion and unusual activities, which can increase the pressure to commit and decrease the likelihood of detecting fraud. Systems of internal controls may become ineffective due to changes, and oversight and monitoring may occur less frequently as employees leave or have additional demands on their time.

To control fraud risk during times of change, management should:

- Maintain effective corporate governance and periodically communicate key governance activities to employees
- Maintain strong company-level controls
- Maintain and promote strong anti-fraud controls, including internal control risk assessments, fraud risk assessments, and an incident hotline
- Perform monitoring activities, including internal control reviews, internal audits, and segregation of duties reviews
- Actively involve internal control and anti-fraud professionals during the integration process (i.e. planning, strategy integration meetings and discussions, etc.)

As markets change, organizations need to change with them, and managing the risks of organizational change helps increase the likelihood of successful adaptation.

Summarized from FRAUD Magazine, March 2015

GOVERNING CHANGE

"What if we don't change at all ... and something magical just happens?"

Organizational changes often affect multiple offices and involve numerous moving parts, and a detailed governance structure can help to provide the oversight needed to implement changes in an organized way. Some essential elements of an effective governance framework include:

- An organizational and reporting structure showing clear lines of authority and responsibility
- A formal and complete project charter that lays out the purpose, objective, and scope of the change and the roles and responsibilities of each group involved
- An oversight committee with authority and responsibility for decision-making, reporting, and escalation of issues that require the involvement of senior management
- Supporting infrastructure, including a risk assessment, policies and procedures, technology, monitoring and reporting, and training and talent development

The project charter should provide the committee members with guidance in terms of roles and responsibilities in the oversight of the program and include key factors such as:

- **Committee Sponsors**—Who supports this effort
- **Purpose, Objective, and Scope**—Why this program is needed, what the broader goal is , and what areas it covers
- **Composition of the Committee**—Who the participants on the committee are
- **Roles and Responsibilities**—What the positions or parts needed to accomplish the program are and what functions are necessary to accomplish the programs goals
- **Delegation of Authority**—Who can make which decisions
- **Communication and Reporting**—How the committee is going to disseminate information
- **Issue Logs and Escalation Process**—How issues will be captured and addressed

A structured governance framework increases the ability of programs to achieve their goals, and enables the organization to continue successfully growing, changing, and improving.

ELEMENTS OF EFFECTIVE CHANGE MANAGEMENT

Organizations that manage change most effectively possess a ***culture*** that recognizes the need for and encourages change, leadership that demonstrates its ***commitment*** to change both in words and actions, and the ***capacity*** (processes, resources, and experience) needed to implement and sustain the change. An honest assessment of the present state of the organization and its ability to support change can allow its leadership to determine in advance if any of these attributes are lacking and if any adjustments to the change process or to the organization itself may be required as a result.

Additionally, individuals are better prepared and more likely to embrace change if they feel they are an integral part of a group (***commitment***); if they view the change as a positive opportunity for growth and development (***challenge***); if they feel they have some influence over the outcome (***control***) ; and if there are resources available to them in the event they require assistance before, during, or after the change occurs (***connection***).

As change leaders, managers should anticipate and respond to the natural anxieties about change that arise within their areas of responsibility in order to achieve the most positive results. Communication at all levels and orderly implementation are vital to supporting successful change. Ensuring that employees are informed about the change itself as well as the reasons behind it can be communicated through a variety of different media (memos, discussions, presentations, etc.) and can be instrumental in addressing and easing concerns and securing buy-in.

While the process of change may be uncomfortable, it is essential for continued organizational success. By being aware of the factors that influence the success of a change, you can be prepared to navigate change more effectively.