

The Risk Stops Here

By John Landreth, CPA, CFE, CHC

Dear Readers,

In this issue I'm going to put the old LTA format aside so that I can share with you a story I have been presenting to my audit customers for many years. It talks about the role of internal audit in governance and management's responsibility for control, as well as longstanding values of accountability, responsibility, and initiative.

At the end of this story-presentation, I tell management that the problems encountered by the auditor do not happen at their organization. Rather, they are like the last manager in the story. I give them a small marble paperweight as my recognition of and appreciation for their leadership. It is simply inscribed *The Risk Stops Here*.

If you would like a copy of the full presentation and story, please send me an email at theriskstopshere@aol.com.

I hope you enjoy the story.

The Risk Stops Here

Once upon a time...

...there was an auditor



who was doing an audit for his Company.



One day when he was passing through the warehouse, he thought he saw something out of the corner of his eye. When he turned, it was gone. Each day that he walked through the warehouse, he kept noticing something.

The next day he looked more carefully...



The auditor was pleased. He was not happy that the risk existed. He was happy that he found it. This meant that he was doing his job for the Company. He was helping to protect his Company.

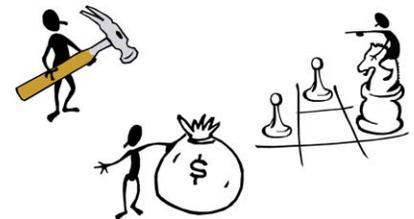
That night, when he returned to his hotel room he thought about the risk. He could not decide on what kind of risk it was. So that night, he went over the kinds of risks there are.

So that night he thought about risks...



There are construction risks, financial risks, strategic risks, environmental risks, communication risks, privacy risks, productivity risks, performance incentive risks, head count risks, integrity risks, reputation risks, time management risks,

There are construction...and financial risks...and strategic risks



even sexual harassment risks. There are even risks for when you don't know what the risk is. After some thought, he figured out what kind of a risk it was.

There are integrity risks...



It was not a big risk, so he decided to call it 'Little Risky'. He knew that even little risks can become big ones in a short period of time if not taken care of. Sometimes they can get quite goofy. They are unpredictable and sometimes can quickly get out of hand.

The auditor also knew that he could not take care of Little Risky because auditors can't own a risk. Only managers can own a risk because they can control the risk's environment. In addition, a

A manager knows that if you catch a risk early



Risks can be trained



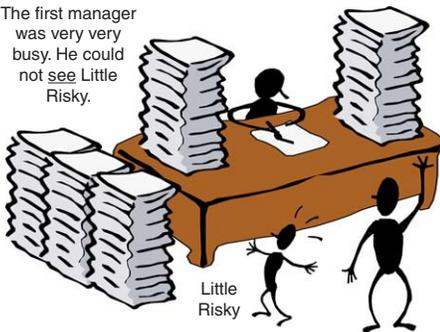
manager knows that if you catch a risk early, it can be trained, or people can be trained on how to handle it.

So, they set out on a journey to find a manager who would make a home for Little Risky. It should be a place where Little Risky could be watched, cared for, and given the attention he deserved. If the Company or Little Risky changed over time, there would be someone who'd keep an eye on these changes to make sure that nothing got out of hand.

They could tell that the first manager they came to was very busy. He was talking on his cell phone, on his speakerphone, and was typing away at his computer. The busy manager barely said anything when the auditor introduced himself. The auditor pointed to Little Risky. Little Risky politely waved. It seemed like the manager listened when he described Little Risky. However, during all of this, the manager kept talking on the phones and typing away.

Suddenly, the manager stopped. He looked at the auditor, blankly looked in Little Risky's direction, and then abruptly said, "It sounds like you *think* there is a risk, but *I do not see it*. Now if you will excuse me, I am very, very busy."

The first manager was very very busy. He could not see Little Risky.



The busy manager then turned away and started talking again into his phones and typing...

The auditor was confused and a bit concerned. Maybe there wasn't a risk after all. If the busy manager could not see Little Risky, then maybe the auditor was working too hard and he was imagining a problem that didn't exist.



So, they moved on to the next manager.

The second manager was not as busy as the first manager. He pleasantly greeted the auditor and gave his full attention to him. This manager was charming and sincere. He listened carefully. When the auditor pointed to Little Risky, the manager recognized him right away. He even waved back at Little Risky. When the auditor was finished, the charming and sincere manager paused thoughtfully for a few minutes. He then said, "You have done a great job for the Company. You have found an important risk that needs to be watched and taken care of. Congratulations!!!"

The auditor was in shock. Auditors rarely get compliments from managers. The auditor caught himself getting teary-eyed from the compliment, but he pulled himself together. The auditor was also very happy. Surely, they had found a home for Little Risky.

Then the charming and sincere manager apologetically said, "However, this is not *my* kind of risk." He then went on to describe the category, sub-category, and sub-sub category of risks he managed. The charming and sincere manager walked them to the door, patted Little Risky on the head, and then pointed down the hallway saying, "Look that way."

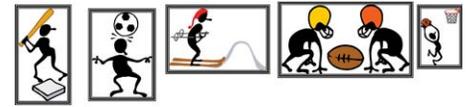
So they moved on...



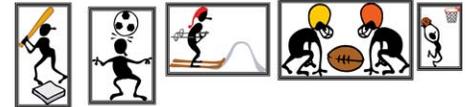
The auditor was encouraged to know that at least he was not hallucinating about Little Risky. He also appreciated the charming and sincere manager's advice.

When they came to the third manager's office, they could tell right away that they might be in the right place. The manager had figurines, pictures, and charts all over the office. They all had strong likenesses to Little Risky. This manager was an expert! Surely, this would be Little Risky's home. The expert manager introduced himself to the auditor and Little Risky. He took Little Risky by the hand — Little Risky sat in his lap. The auditor could see that the expert manager understood Little Risky. They talked and talked. The manager even made Little Risky laugh.

The expert manager also congratulated the auditor for finding Little Risky. He said that he would be very happy to take care of Little Risky...



They could tell right away that the next manager knew Little Risky's kind of risk



He understood it



He could make it laugh



However, the manager then went on to talk about how his 'to-do' list was already committed. His goals, objectives, personal goals, extended goals, special objectives, and stretch objectives were over-extended and super-stretched out. Little Risky was his kind of risk, but the expert manager already had his priorities for the year and he had no room. There was no room in his 'In-box' for Little Risky.

The auditor and Little Risky were very very disappointed and sad. They had started out on their search being very hopeful. They were running out of time and managers who could help. They both were fearful that it was starting to look like Little Risky might be a 'Risk Orphan'.

This was a very bad thing. This meant that there was no manager who could take care of him. Little Risky would be left alone. They both knew that a risk left by itself was not a good thing. Bad things could happen.

The fourth manager's office walls were filled with diplomas, plaques of recognition, and certificates of accomplishments. The auditor could tell that a well-thought of person worked here. The elegant leather and wood that adorned the furniture, hundreds of scholarly books on shelves and the thick carpet gave the room a hushed, peaceful, and learned feeling. This was a room where great men discussed great thoughts and perspectives on life. Surely, this manager would help him find a home for Little Risky.

The manager warmly greeted the auditor and they sat down. As the auditor expected, he was a soft-spoken and articulate - a very learned man. The auditor noticed that he did not greet Little Risky. The manager's eyes were solely focused on the auditor. So when the auditor started to describe Little Risky and point him out to the manager, his face showed great concern. The soft-spoken, articulate, and learned manager quickly motioned the auditor forward and whispered to him, "Can we discuss this ... alone?"

The auditor figured that this is how great and learned men discuss risks of great import. He politely ushered Little Risky to the hallway and told him to wait. The auditor closed the door and returned to his seat. The manager was now back to his assured and confident smile.

"You are quite an auditor," the soft-spoken, articulate, and learned manager said. "Many of your kind have been through this company and never noticed this risk. One must have a special eye for risk. Of course, I have been aware of this for some time. Our consultants tell me that this can be a very complex risk to manage. It could be costly and I'm not sure that our management team or organization can handle it right..."

The auditor waited for the soft-spoken, articulate, and learned manager to continue, but he did not explain further. Finally, the auditor broke the silence. "So, what are you doing about it?" "Nothing," the soft-spoken, articulate, and learned manager repeated, "Nothing."

The manager explained, "You see, if we put together a policy, procedure, and compliance program to manage and control it, this will show that we know about it. If we know about it, make a mistake, and it occurs, then we could be accused of being negligent and not doing enough. Then we could be held accountable for it. As long as you act as if it does not exist and nothing happens, then it will be just fine. If something happens, we'll claim ignorance and can avoid being called negligent. We will take action when we have to. Our consultants tell us that when you get sued, ignorance is *cheaper* than negligence."

The auditor found himself getting light headed. He felt himself longing for a time when things were simpler. From this mind-storm, he blurted, "What should I do with Little Risky?"

The soft-spoken, articulate, and

learned manager calmly said, "Go back to where you found it and when it's not looking, run away from it as fast as you can. If it ever approaches you again, act as if it does not exist. Deny, deny, deny!"

The auditor promptly rose and thanked the manager for his time. The manager replied, "It was nothing. It has been a privilege."

So they moved on...



The auditor closed the door and looked at Little Risky. Little Risky had a questioning look on his face. The auditor moaned and rolled his eyes and said, "Lawyers!"

As the auditor looked down the hallway, he thought about his day with Little Risky.

They had found a manager who was so busy he couldn't even see the risk.

Then there was a manager who saw the risk but it was not his kind of risk.

Then a manager who knew the risk very well but it was not in his priorities.

Finally, they met a manager who knew so much about the risk that he was afraid of it and chose to do nothing.

The auditor and Little Risky looked up and down the hallway. It looked like there were no more managers to talk to. So, they started walking toward the exit at the end of the hallway. They walked by the last door which was closed. Little Risky abruptly stopped at the door.

The auditor continued walking and motioned to Little Risky to catch up, but he stayed there. Realizing they had a stand-off, he walked back to Little Risky. The door plate read, 'CEO'.

The auditor frowned at Little Risky. "If all the other managers were too occupied, blind, busy or scared to handle you, what makes you think the CEO will be any different?"

Little Risky just stood there with his arms folded and a determined look on his face. Little Risky was not moving.

"Alright," said the auditor as he knocked on the door. A voice from the other side said, "Please come in!"

As they entered the CEO's office, they both knew they had finally found a home for Little Risky. There were framed posters, signs, artwork, and banners that all read the same, —**The Risk Stops Here**. The auditor could see pens and pencils, memo pads, and a paperweight with the same statement.

The CEO shook hands with the auditor and patted Little Risky on the head. "Now, tell me about your little friend," he said.

The auditor recounted his story and the events of the day. When he was finished with his description, the CEO said, "You've done a great job. You're a great auditor. You have a great career ahead of you. Great auditors make great managers."



"You've done your job; now, it's my turn. Watch this."

He picked up the phone and murmured into it. The auditor heard hurried voices, bodies bumping into each other, and the sound of feet scurrying down the hallway. The busy manager was there. The charming and sincere manager was there. The expert manager was there, and the soft-spoken, articulate, and learned manager was there. They were waiting obediently in-line at the doorway.

They respectfully approached Little Risky and encircled him. The expert manager lifted him on his shoulders. Little Risky was now the center of all their attention. Little Risky beamed. He was smiling and smiling.

As the Little Risky task force approached the office door to leave, the auditor and Little Risky shook hands. "Be good!" the auditor said, "I will be looking for you". Little Risky nodded, smiled, and waved. Then they were gone.

The auditor returned to his seat. "Thank you for your help, but why were you the only one willing to take care of Little Risky when all the other managers would not?"

The CEO explained, "Business and life are all about learning to accept risk." When you adapt to risk, you learn about it and you learn about yourself. You live, you learn, and you grow. They are very good managers. If I do my job right, they will grow to become great leaders.

The CEO continued, "Leaders need to have *vision*. They must have the long view to see things strategically for the Company's future. Leaders need to take a *step back* from time to time. They look for the little things, too. You need to have good eyesight for risks that are both near and far, especially when you are busy. First, you must always *See the Risk*."

"Managers know and understand their risks, but Leaders are ever watchful for *all* of the risks of the organization. Even if it is not *your* risk, it is part of *our* risk as a management team. You must always *Own the Risk*."

"Leadership also means addressing a problem before it becomes an emergency. When a new risk comes to your attention, you need to re-assess your priorities and take action. You can always sort out whose risk it is later and re-assign it. You

must always be willing to *Act Now!*"

"Managers know that running a business can be tough and new risks can make it even tougher. Acting as if a risk does not exist or being fearful only makes it seem worse than it is. Leaders fully accept new risk. They take time to understand it. They learn how to manage it. They become better from the experience."

"Leaders face the risk. They don't run away from it, they run toward it and embrace it. Embrace the Risk. The Risk is your friend."

The CEO concluded, "When managers *See the Risk, Own the Risk, and Embrace the Risk, they become leaders and...*

See it...Own it...Embrace it !

The Risk Stops Here

Embrace the Risk The Risk is Your Friend



Well, that's it for this issue of Letters to the Auditor. Please keep those letters, faxes, calls, emails, and questions coming in. Send your questions to Letters to the Auditor, 1810 W. Birch Lane, Park Ridge, Illinois 60068; via email to jlandreth999@aol.com; or by phone (847)525-6529. **NP**

I hope you enjoyed this special issue of Letters to the Auditor. A very special thanks goes to my daughter Christina, son Brian, and wife Patti for their help editing this story!

John Landreth is Director, Internal Audit at Classic Residence by Hyatt, a national leader in luxury senior living, headquartered in Chicago, Ill.