

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

MANAGE PHYSICAL RISK

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of managing physical risk. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Risk of accidents is reduced by providing a safe working environment.
- B. Adequate insurance coverage is maintained at a minimum cost.
- C. A strong working relationship with brokers and insurers is developed.
- D. The risks of incurring significant losses in physical assets are evaluated.
- E. Risk management strategy is integrated with corporate strategy.

Compliance with applicable laws and regulations

- A. Applicable Occupational Safety and Health Administration laws and regulations are observed.

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Effectiveness and efficiency of operations

A. Risk of accidents is reduced by providing a safe working environment.

Business risks

- Out-of-date production facilities will cause accidents.
- Employees will be injured.
- Plants and equipment will be damaged.
- Production will decline.
- Employee morale will decline. Employee actions will be brought against the company.

Control practices

1. Ensure that capital expansion plans address safety objectives.
2. Identify hazardous jobs, activities, or locations and develop formal safety procedures and policies to manage hazards in these areas.
3. Provide employees with adequate training about the dangers involved and the safety procedures that must be followed to reduce occupational risks to an acceptable level.
4. Discipline violators of safety policies or procedures appropriately.
5. Monitor worker compensation or related insurance claims. Analyze underlying causes of the claims and compare them to claim experience industry averages.
6. Establish a regular maintenance program for machinery and equipment and investigate, resolve, and document any malfunctioning of equipment on a timely basis.
7. Employ external resources such as insurance company loss control or industry safety management experts to identify safety risks and recommend appropriate precautions.

B. Adequate insurance coverage is maintained at a minimum cost.

Business risks

- Insurance coverage will not be adequate to fully compensate for loss or damage to physical resources.

Control practices

1. Retain employees with risk management training and experience to help identify the potential risks of loss or damage to physical resources and assess the related financial loss and other consequences.
2. Engage risk management personnel to identify the risks that need to be insured and determine the level of insurance coverage required.
3. Obtain competitive quotes from third party insurance carriers for the insurance coverage desired.
4. Review the adequacy of existing insurance coverage in light of prevailing market conditions and circumstances periodically.
5. Consider alternatives for insuring certain risks where the coverage is either not available or cost prohibitive.

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C. A strong working relationship with brokers and insurers is developed.

Business risks

- The company will use too many insurance providers, resulting in higher costs and poor service.
- The loss prevention program will not respond to company needs.

Control practices

1. Consolidate the number of insurance providers to concentrate on one or two lead insurers.
2. Monitor underwriting markets to assess both availability and cost.
3. Involve brokers and insurers in assessing exposures and designing the company's insurance plan.

D. The risks of incurring significant losses in physical assets are evaluated.

Business risks

- Management will remain unaware of significant risks that could adversely affect the company.
- Inaccurate, insufficient, or untimely information regarding risk-related costs or accidents will give rise to insurance claims.
- There will be no process for updating management's assessment of insurable risks.

Control practices

1. Analyze operations, business plans, and historical events periodically, in association with insurance carriers, legal counsel, and other appropriate parties, to ensure that all risks and contingent liabilities are managed properly.
2. Configure information systems to provide information on all risk-related costs including insurance premiums, self-insured losses, and risk management personnel costs.
3. Engage third parties, such as actuaries, to review the adequacy of established reserves.

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E. Risk management strategy is integrated with corporate strategy.

Business risks

- Physical resources that are critical to executing the business strategy will not be adequately protected.

Control practices

1. Develop a risk management strategy that is consistent with the company's culture and long-term goals.
2. Communicate the objectives of risk management throughout the organization.
3. Adopt a proactive risk management approach, based on loss prevention rather than loss control, to focus on anticipating what can happen so that preventive steps can be taken.

Compliance with applicable laws and regulations

A. Applicable Occupational Safety and Health Administration laws and regulations are observed.

Business risks

- Lack of knowledge of OSHA laws and regulations will result in physical and financial losses.

Control practices

1. Retain legal counsel to provide advice on OSHA requirements.
2. Engage legal counsel to periodically review applicable policies, procedures, and safety precautions.